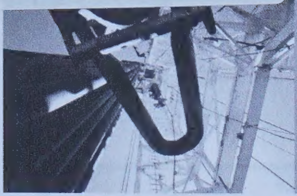


MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

To highlight, 2008 was a year of exceptional performance for Canadian Energy Services L.P. A few accomplishments to reflect back on include: Western Canadian Sedimentary Basin market share growth; geographical expansion into the United States in pursuit of the major resource play activity; further integration through our trucking group EQUAL Transport; expanding our service offering through the strategic acquisition of Clear Environmental Solutions; validation of our market position as a technology innovator through our first Seal-AX™ patent; and maintaining distribution levels while preserving our balance sheet strength. The contribution and dedication of our employees has remained a constant in all of these accomplishments.

We fully appreciate the new and serious challenges at hand. Equity and credit markets remain difficult, commodity prices have drastically fallen, and, as a result, activity for our customers is expected to be substantially reduced.

The same ingenuity and dedication that allowed us to double the company's revenue from 2007 to 2008 will help us weather this industry downturn. We made calculated and responsible decisions to create profitable growth. We will apply the same focus to properly execute in an increasingly competitive and challenging environment. We understand our customers and their changing needs and are dedicated to helping them do more with less.

We continue to assert that our unique, cost saving technologies create value for our customers, specifically in the major resource plays throughout North America. We will address our cost structure and staff our business appropriately to reflect new activity levels, while maintaining our ability to execute to the benefit of our customers. We believe we will remain a relevant service provider to our customers with this approach, with a vision of creating long-term security for our employees and value for our Unitholders.

Tom Sim

Thomas J. Simons
President and Chief Executive Officer

Canadian Energy
SERVICES L.P.

Management's Discussion and Analysis

For the Year Ended December 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto of Canadian Energy Services L.P. ("CES" or the "Partnership") as at and for the years ended December 31, 2008 and December 31, 2007. The information contained in this MD&A was prepared up to and including February 26, 2009 and incorporates all relevant considerations to that date.

Certain statements in this MD&A may constitute "forward-looking information" which involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Partnership, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, such information uses such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", and other similar terminology. This information reflects the Partnership's current expectations regarding future events and operating performance and speaks only as of the date of the MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed below. The management of the Partnership believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements contained in this document speak only as of the date the document, and the Partnership assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws or regulations.

In particular, this MD&A contains forward-looking information pertaining to the following: future estimates as to distribution levels; capital expenditure programs for oil and natural gas drilling; supply and demand for the Partnership's products and services; industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; dependence on equipment suppliers; dependence on suppliers of inventory and product inputs; equipment improvements; dependence on personnel; collection of accounts receivable; operating risk liability; expectations regarding market prices and costs; expansion of services in Canada, the United States and internationally; development of new technology; acquisition of trucking capacity; access to debt and capital markets; and competitive conditions.

The Partnership's actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States and internationally; demand for oilfield services for drilling and completion of oil and natural gas wells; volatility in market prices for oil, natural gas and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions, taxation of trusts, public partnerships and other flow-through entities, and changes to the royalty regimes applicable to entities operating in the Western Canadian Sedimentary Basin and the United States; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates and the other factors considered under "Risk Factors" in the Partnership's Annual Information Form for the period ended December 31, 2008 and "Risks and Uncertainties" in this MD&A.

Without limiting the foregoing, the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

BUSINESS OF THE PARTNERSHIP

The core business of CES is to design and implement drilling fluid systems for oil and natural gas producers. CES operates in the Western Canadian Sedimentary Basin ("WCSB") and the United States ("US"), with an emphasis on servicing the ongoing major resource plays. The drilling of those major resources plays includes wells drilled vertically, directionally, and with increasing frequency, horizontally. Horizontal drilling can be utilized in tight formations like shale gas/oil and in the tarsands ("SAGD") and in heavy oil. The designed fluid encompasses the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. The Partnership's drilling fluid systems are designed to be adaptable to a broad range of complex and varied drilling scenarios, to help clients eliminate inefficiencies in the drilling process and to assist them in meeting operational objectives and environmental compliance obligations. The Partnership markets its technical expertise and services to oil and natural gas exploration and production entities by emphasizing the historical success of its patented and proprietary drilling fluid systems and the technical expertise and experience of its personnel.

Clear Environmental Solutions ("Clear"), the Partnership's environmental division, provides environmental and drilling fluids waste disposal services primarily to oil and gas producers active in the shallow natural gas producing areas of Alberta as well as to Alberta's oil sands. The business of Clear involves determining the appropriate processes for disposing of, or recycling fluids produced by drilling operations and to carry out various related services necessary to dispose of drilling fluids.

The Partnership's head office and the sales and services headquarters are located in Calgary, Alberta and its stock point facilities and other operations are located throughout Alberta, British Columbia and Saskatchewan. The Partnership's indirect wholly-owned subsidiary, AES Drilling Fluids, LLC ("AES"), conducts operations in the United States from its head office in Denver, Colorado and its stock point facilities are located in Oklahoma and Utah.

NON-GAAP MEASURES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain supplementary information and measures not recognized under GAAP are also provided in this MD&A where management believes they assist the reader in understanding the Partnership's results. These measures are calculated by CES on a consistent basis unless otherwise specifically explained. These measures are further explained as follows:

Distributable funds – means funds flow from operations less maintenance capital. See the definition of funds flow from operations below and the definition of maintenance capital under "Operational Definitions" on page 4. Distributable funds is a measure used by management and investors to analyze the amount of funds available to distribute to unitholders before consideration of funds required for growth purposes. Refer to "Liquidity and Capital Resources – Funds Flow from Operations and Distributions" on page 14 for the calculation of distributable funds.

EBITDAC – means net earnings before interest, taxes, amortization, loss on disposal of assets, goodwill impairment and unit-based compensation. EBITDAC is a metric used to assess the financial performance of an entity. Management believes that this metric assists in determining the ability of CES to generate cash from operations. EBITDAC was calculated as follows:

	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007	$ Change	% Change
($000's)				
Net earnings	**15,186**	7,301	7,885	108
Add back (deduct):				
Amortization	**2,601**	913	1,688	185
Unit-based compensation	**2,097**	168	1,929	n/m
Interest expense	**586**	43	543	n/m
Loss on disposal of assets	**37**	27	10	37
Future income tax expense	**125**	2,001	(1,876)	n/m
EBITDAC	**20,632**	10,453	10,179	97

Note:
n/m – Calculation is not meaningful.

Funds flow from operations – means cash flow from operations before changes in non-cash operating working capital. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flow, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. Funds flow from operations assists management and investors in analyzing operating performance and leverage. Funds flow from operations was calculated as follows:

	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007	$ Change	% Change
($000's)				
Cash provided by operating activities	**2,522**	4,386	(1,864)	(42)
Adjust for:				
Change in non-cash operating working capital	**17,524**	6,024	11,500	191
Funds flow from operations	**20,046**	10,410	9,636	93

Gross margin – means revenue less cost of sales, which represents cost of product, field labour and all field related operating costs. Management believes this metric provides a good measure of the operating performance at the field level. It should not be viewed as an alternative to net earnings.

Payout ratio – means distributions declared as a percentage of distributable funds. Refer to "Liquidity and Capital Resources – Funds Flow from Operations and Distributions" on page 14 for the calculation of the payout ratio.

These measures do not have a standardized meaning as prescribed by Canadian GAAP and are therefore unlikely to be directly comparable to similar measures presented by other companies, trusts or partnerships.

OPERATIONAL DEFINITIONS

Expansion capital – represents the amount of capital expenditure that has or will be incurred to grow or expand the business or would otherwise improve the productive capacity of the operations of the business.

Maintenance capital – represents the amount of capital expenditure that has been or will be incurred to sustain the current level of operations.

Market share – CES estimates its market share by comparing, on a semi-weekly basis, active rigs where the Partnership was contracted to provide services to the total active rigs for Western Canada. Total active rigs for Western Canada are based on Canadian Association of Oilwell Drilling Contractors ("CAODC") published data for Western Canada.

Operating days – CES estimates its operating days, which are revenue generating days, by multiplying the average number of active rigs where the Partnership was providing drilling fluid services by the number of days in the period.

Well type - the Partnership classifies oil and natural gas wells by depth, as follows:

shallow wells:	generally less than 1,000 metres;
medium wells:	generally between 1,000 and 2,500 metres;
deep wells:	generally greater than 2,500 metres; and
horizontal wells:	drilled vertically then horizontally, often with multiple lateral legs, reaching out 500 to 1,500 metres each.

FINANCIAL HIGHLIGHTS

Financial Results	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007	$ Change	% Change
($000's, except per unit amounts)				
Revenue	**125,069**	60,420	64,649	107
Gross margin[1]	**36,696**	19,075	17,621	92
Net earnings before taxes	**15,311**	9,302	6,009	65
per unit – basic and diluted[2]	**1.47**	0.99	0.48	48
Net earnings	**15,186**	7,301	7,885	108
per unit – basic and diluted[2]	**1.46**	0.78	0.68	87
EBITDAC[1]	**20,632**	10,453	10,179	97
Funds flow from operations[1]	**20,046**	10,410	9,636	93
per unit – basic and diluted[2]	**1.93**	1.11	0.82	74
Distributions declared	**9,906**	8,916	990	11
per Class A Unit	**0.9504**	0.9504	-	-
per Subordinated Class B Unit	**0.9504**	0.9504	-	-

[1] *Refer to the "Non-GAAP Measures" on page 3 for further detail.*
[2] *Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 17).*

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights of the year ended December 31, 2008 in comparison to the year ended December 31, 2007 for CES were:

- The Partnership generated gross revenue of $125.1 million for the year ended December 31, 2008, an increase of 107% over the year ended December 31, 2007. On a per unit basis, gross revenue was $12.04 per unit for the year ended December 31, 2008 compared to $6.44 per unit for the year ended December 31, 2007. Revenue from drilling fluids related sales of products and services in Western Canada was $104.1 million for the year ended December 31, 2008, compared to $59.4 million for the year ended December 31, 2007 an increase of 75%. CES's estimated market share (refer to "Operational Definitions" on page 4) in Western Canada increased to 21% for the year ended December 31, 2008 from 17% for the year ended December 31, 2007. CES operating days (refer to "Operational Definitions" on page 4) in Western Canada were estimated to be 30,660 for the year, an increase of 52% from last year. Overall industry activity in Western Canada increased 7% from an average rig count in 2007 of 339 to 364 in 2008 based on CAODC published monthly data for Western Canada. Revenue generated in the US from drilling fluids related sales of products and services in 2008 was $4.7 million with 732 operating days (refer to "Operational Definitions" on page 4) for the year ended December 31, 2008. CES did not have any activity in the US in 2007. Revenue from trucking operations increased to $5.8 million from $1.0 million for the years ended December 31, 2008 and 2007 respectively. The Clear Environmental Solutions ("Clear") business which was acquired by CES on June 12, 2008, generated $10.5 million of revenue in the period since the acquisition.

- Gross margin of $36.7 million or 29% of revenue was generated for the year which, as a percentage of revenue, was lower than the 32% gross margin generated in 2007. The decrease in margin was primarily due to increased sales of invert, which generates a lower product margin, and lower margins received on revenue generated in the US in order to gain an entry into the marketplace.

- Selling, general and administrative costs were $16.1 million for the year ended December 31, 2008, in comparison to $8.6 million for the year ended December 31, 2007. This increase is in line with the overall growth in operating revenue and reflective of the diversification into complementary business lines and the new geographic expansion into the US. In 2008, three new offices were added including two in the US (Denver and Oklahoma City) and one in Calgary (Clear), resulting in an increase to average office headcount from 31 in 2007 to 53 in 2008. Office headcount at December 31, 2008 and 2007 was 70 and 32, respectively.

- Net earnings were $15.2 million for the year ended December 31, 2008, an increase of 108% over the $7.3 million generated in the previous year. Earnings per unit were $1.46 for the year ended December 31, 2008, as compared with $0.78 in 2007.

- The Partnership maintained its monthly distributions throughout the year at its target level of $0.0792 per unit to Class A unitholders. Quarterly distributions of $0.2376 were declared and paid to the Subordinated Class B unitholders for each of the fiscal quarters of 2008. The payout ratio (refer to "Non-GAAP Measures" on page 3) was 52% for the year ended December 31, 2008, in comparison to 90% for the year ended December 31, 2007. The determination of the payout ratio does not take into account changes in non-cash operating working capital items. Management and the Board of Directors review the appropriateness of distributions on a monthly and quarterly basis taking into account industry conditions, growth opportunities requiring expansion capital and management's forecast of distributable funds. Although at this time the Partnership intends to continue to make cash distributions to unitholders, these distributions are not guaranteed. (See "Funds Flow from Operations and Distributions" on page 14).

- CES continued to maintain a strong balance sheet at December 31, 2008 with net working capital of $15.8 million and an operating line of credit of $20.0 million, of which $12.0 million was drawn. At December 31, 2007, net working capital was $7.6 million and the operating line of credit was $7.0 million, of which $3.3 million was drawn.

- The Partnership established two long-term committed debt facilities a commercial bank to borrow $2.7 million in 2008. At December 31, 2008, there was $2.5 million outstanding on the committed loans.

- On June 12, 2008, the Partnership completed the acquisition of the business and assets of Clear for an aggregate purchase price of $11.5 million and has recognized a contingent liability based on the earn-out provisions under the purchase agreement of additional $2.0 million. (see "Liquidity and Capital Resources – Business Acquisitions" on page 16).The acquisition of Clear provides the Partnership with an entrance into the environmental business and, in particular, the drilling fluids waste disposal business.

- On October 7, 2008, CES received notification from the Canadian patent office that the first of a number of patent applications relating to Seal-AX™ was approved.

RESULTS FOR THE PERIODS

Financial Results	**Year Ended Dec 31, 2008**	Year Ended Dec 31, 2007	305-day Period Ended Dec 31, 2006[4]
($000's, except per unit amounts)			
Revenue	**125,069**	60,420	46,013
Cost of sales	**88,373**	41,345	32,829
Gross margin[1]	**36,696**	19,075	13,184
% of revenue	**29%**	32%	29%
Selling, general and administrative expenses	**16,064**	8,622	5,663
Impairment of goodwill	**-**	-	34,000
Amortization	**2,601**	913	345
Unit-based compensation	**2,097**	168	105
Interest expense	**586**	43	(120)
Loss on disposal of assets	**37**	27	-
Net earnings (loss) before taxes	**15,311**	9,302	(26,809)
Future income tax expense	**125**	2,001	-
Net earnings (loss)	**15,186**	7,301	(26,809)
per unit – basic and diluted	**1.46**	0.78	(2.93)

Financial Position	Dec 31, 2008	Dec 31, 2007	Dec 31, 2006
($000's)			
Net working capital	**15,825**	7,552	10,920
Total assets	**125,261**	77,070	74,910
Long-term financial liabilities[3]	**3,474**	1,289	616
Unitholders' equity	**76,978**	53,047	54,494

Partnership Units Outstanding[2]		Year Ended Dec 31, 2008	Year Ended Dec 31, 2007	305-day Period Ended Dec 31, 2006[4]
End of period		**11,169,801**	9,380,946	9,380,946
Weighted average	- basic	**10,391,369**	9,380,946	9,152,574
	- diluted	**10,391,369**	9,383,215	9,166,542

Notes:
[1] Refer to the "Non-GAAP Measures" on page 3 for further detail.
[2] Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 17).
[3] Vehicle financing loans and term loan excluding current portions.
[4] From commencement of operations on March 2, 2006, readers should be cautioned that the years ended December 31, 2008 and 2007 are not directly comparable to the 305-day period ended December 31, 2006 due to the shorter period in 2006.

Revenue and Operating Activities

The Partnership generated revenue of $125.1 million for the year, an increase of 107% over the year ended December 31, 2007. Of the $64.6 million increase in revenue, $44.6 million was generated in the Western Canada drilling fluids business; $4.7 million was generated in the US drilling fluids business; $10.5 million was contributed by Clear, the new environmental division; and $4.8 million was generated by incremental trucking operations. The active rig count in Western Canada averaged 364 for the year in 2008 based on CAODC published monthly data for Western Canada. This was a 7% increase from the average rig count of 339 in 2007. As of February 10, 2009, there were 381 active rigs reported by CAODC, which compares to 571 a year earlier.

CES estimated its market share (refer to "Operational Definitions" on page 4) in 2008 was 21%. CES' market share had grown from an estimated 17% in 2007.

The top five customers of the Partnership accounted for approximately 29% of revenue in 2008, with the largest customer, a large independent exploration and production company, at 10.6%. The top five customers of the Partnership accounted for approximately 29% of revenue in 2007, with the largest customer, a major exploration and production company, at 9.0%.

The Partnership estimated operating days (refer to "Operational Definitions" on page 4) from its drilling fluids services as follows:

	Year Ended Dec 31			
	2008	2007	Change	% Change
Canada	**30,660**	20,143	10,517	52
United States	**732**	-	732	n/m
Total Operating Days	**31,392**	20,143	11,249	56

Note:
n/m – Calculation is not meaningful.

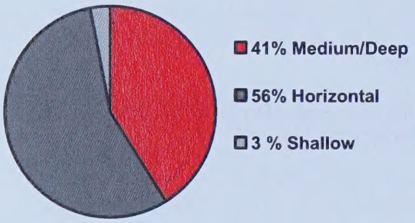
CES generated incremental revenue in the year ended December 31, 2008 from US operations with an estimated 732 operating days. In addition, the EQUAL Transport trucking division with operations based in Edson, Alberta; growth in trucking for the Moose Mountain Mud division; and the additional EQUAL Transport location based in Carlyle, Saskatchewan, contributed $5.8 million of revenue for the year ended December 31, 2008, up from the $1.0 million generated for the same period in 2007.

The environmental division, Clear, was acquired on June 12, 2008 and contributed \$10.5 million of revenue in the period from acquisition to December 31, 2008. The work performed for shallow gas programs is currently on target, with increases in revenue and profit being recognized in Northern Alberta, B.C. and oil sands areas. During 2008, Clear was awarded oilsands project work from a number of key operators.

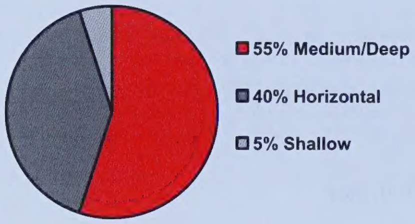
Overall, CES's drilling fluid business continued to focus on resource plays and in particular the medium to deep drilling and horizontal drilling in those plays, which collectively represented approximately 97% of drilling fluids revenue for the year ended December 31, 2008 as compared with 95% of drilling fluids revenue for the year ended December 31, 2007. CES' experience has been that the importance to the operator of efficient drilling fluid systems increases significantly with the depth and complexity of the well drilled.

The following charts illustrate the Partnership's estimated revenue from its drilling fluids business by well type in CES' targeted areas:

Year Ended Dec 31, 2008



Year Ended Dec 31, 2007



Cost of Sales and Gross Margin

Gross margin represents the profit earned on revenue after deducting the cost of products, field labour and all related field costs. Margins vary due to a change in product mix, well type, geographic area and nature of activity (i.e. drilling fluids, trucking, environmental, etc.).

Gross margin of \$36.7 million, or 29% of revenue, was generated for the year in 2008. Gross margin of \$19.1 million, or 32% of revenue, was generated for the year in 2007. Margins have decreased from 2007 primarily due to increased sales of invert, which generates a lower product margin and lower margins received on revenue generated in the US in order to gain an entry into the marketplace.

The primary component of field costs is product costs. CES, along with its competitors, has seen significant increases to cost of product largely driven by higher cost of fuel. The Partnership has been working with customers to pass along higher costs and, as well, has been pursuing more effective procurement strategies.

Cost of labour has less of an impact on margins as activity increases. Use of consultants and the variable component of compensation for employees provides a means to manage seasonal activity swings. With the increased levels of industry activity from last year, CES has increased its operating days and increased its investment in personnel. CES field staff increased from an average headcount of 38 in 2007 to 78 in 2008, a 105% increase. The increased field staff was required to accommodate the growth in activity from 2007 to 2008. At December 31, 2008 and 2007, the head count of field staff was 101 and 46, respectively. Given the uncertainty of the demand for oilfield services and volatility in market prices of oil and natural gas, CES continues to evaluate required field personnel levels and will match staffing levels to activity as required. CES remains committed to the continued training and retention of quality field personnel to ensure quality customer service at the well site.

Selling, General and Administrative Expenses ("SG&A")

SG&A for the year ended December 31, 2008 was \$16.1 million, an increase of \$7.4 million (86%) from the year ended December 31, 2007. This increase is line with the overall growth in operating revenue, and reflective of the diversification into complementary business lines and the new geographic expansion into the US. In 2008, three new offices were added including two in the US (Denver and Oklahoma City) and one in Calgary (Clear), resulting in an increase to average office headcount from 31 in 2007 to 53 in 2008. Office headcount at December 31, 2008 and 2007 was 70 and 32, respectively.

The Partnership continues to be focused on overall cost control for SG&A especially in light of the current downturn in drilling activity.

Goodwill Impairment

At December 31, 2008, the Partnership completed its annual goodwill impairment test. Management estimated the fair value of the Partnership's drilling fluids and environmental businesses using a number of industry accepted valuation methodologies including discounted future cash flows, comparable industry valuation multiples, recent trading activity and capital market pricing of the Partnership's units. During the year ended December 31, 2007, management estimated the fair value of the Partnership's drilling fluids businesses using a number of industry accepted valuation methodologies. Management concluded that the carrying value of goodwill as at December 31, 2008, was less than the estimated fair value and therefore no reduction in the carrying value was necessary.

Other Expense Items

Amortization of property, equipment and intangibles was $2.6 million for the year in 2008 in comparison to $0.9 million for the year in 2007. The increase largely related to the investment in trucks and trailers for the trucking division and light duty trucks for the drilling fluids division and the increase in amortization of intangible assets of $0.7 million. Amortization of property, equipment and intangibles was $0.3 million for the 305-day period in 2006.

Unit-based compensation was $2.1 million for the year ended December 31, 2008, an increase of $1.9 million over the $0.2 million for the same period last year. The increase is due to the impact of the Distribution Rights Plan which was implemented in May 2008 and is amortized over the remaining vesting periods of the related options.

Interest expense increased to $0.6 million for the year ended December 31, 2008 from $43,000 for the same period in 2007 due to the higher average debt outstanding for 2008 as compared with 2007. Interest expense consists of interest expense on vehicle financing loans, the committed facilities and the operating loan less interest earned on short-term investments.

Future Income Taxes

Based on its assets and liabilities as at December 31, 2008 and 2007, the Partnership estimated the amount of its temporary differences, which were previously not subject to tax, and the period in which these differences will reverse. Details of taxable (deductible) temporary differences are as follows:

	Dec 31, 2008	Dec 31, 2007
Property and equipment	**$ 637**	$ 13
Goodwill	**2,003**	1,648
Share issuance costs	**(2,922)**	(3,160)
Non-capital losses of US subsidiary	**(2,701)**	-
Net deductible temporary differences	**$ (2,983)**	$ (1,499)

On June 22, 2007 the Government of Canada enacted legislation imposing additional income taxes upon flow-through entities including public partnerships such as CES, effective January 1, 2011. The Partnership estimated that $7.3 million of net taxable temporary differences will reverse after January 1, 2011, resulting in a $2.0 million future income tax liability at December 31, 2008. The taxable temporary differences relate principally to the projected excess of net book value of goodwill over the projected remaining tax pools attributable thereto at January 1, 2011.

The Partnership recorded a net future tax asset of $0.8 million relating to the estimated non-capital loss balance of its US subsidiary at the end of 2008, for which a valuation allowance of $0.8 million has been applied due to the uncertainty of realization at this early stage of operations in the US. As a result, as at December 31, 2008, CES had unused US non-capital loss tax pools of $2.7 million (December 31, 2007 - $nil). The US non-capital losses available for carry forward expire in 2028.

While the Partnership believes it will be subject to tax under the enacted legislation, the tax rate on temporary difference reversals after 2010 may change in future periods. The amount and timing of reversals of temporary differences will also depend on the Partnership's future operating results, financings and asset acquisitions and dispositions.

Net Working Capital

The Partnership's net working capital at December 31, 2008 was $15.8 million as compared with $7.6 million at December 31, 2007. The increase in net working capital related mostly to the higher operating activity during the fourth quarter of 2008 compared to same period in 2007 and the corresponding increase in net working capital balances.

Total Assets

Total assets of CES increased from $77.1 million at December 31, 2007 to $125.3 million at December 31, 2008. The increase of $48.2 million relates to: (i) additional accounts receivable of $25.4 million from increased revenues and operating activity; (ii) the acquisition of additional inventory of $4.7 million for operating activities through increased bank indebtedness and accounts payable; (iii) the increase in intangible assets and goodwill of $12.0 million relating to the Clear acquisition (see "Liquidity and Capital Resources – Business Acquisition" on page 16); (iv) additional property and equipment including trucks and trailers for the trucking division and light duty trucks for the drilling fluids division of $7.7 million; and (v) the increase in other assets offset by amortization of property and equipment and intangible assets of $(1.6) million.

Long-term Financial Liabilities

The Partnership had long-term financial liabilities outstanding at December 31, 2008 of $3.5 million compared to $1.3 million at December 31, 2007. Long-term financial liabilities are represented by vehicle financing loans and committed facilities, excluding current portion. The increase in long-term financial liabilities was for the acquisition of additional property and equipment including trucks and trailers for the trucking division and light duty trucks for the drilling fluids division.

Unitholders' Equity

Unitholders' equity increased from $53.0 million at December 31, 2007 to $77.0 million at December 31, 2008 mainly due to the net proceeds received of $11.9 million from the bought deal financing completed in June 2008 (see "Liquidity and Capital Resources – Financing Activities" on page 17); the units issued as partial consideration for the Clear Acquisition (see "Liquidity and Capital Resources – Business Acquisitions" on page 16) for $3.9 million; and the net earnings generated for the year ended December 31, 2008 of $15.2 million. The increase to unitholders' equity was partially offset by the unitholders' distributions declared of $9.9 million in 2008.

SEGMENTED RESULTS

The Partnership has two business segments, which are the Drilling Fluids segment and the Environmental Services segment. The business of the Drilling Fluids segment is to design and implement drilling fluid systems for the oil and natural gas industry in the WCSB and the US, with an emphasis on servicing the ongoing major resource plays including SAGD, other heavy oil and bitumen extraction methods and other horizontal applications. The business of the Environmental Services segment is to provide environmental and drilling fluids waste disposal services mostly to oil and gas producers active in the shallow natural gas producing areas of Alberta as well as to Alberta's oil sands. The Environmental Services segment is comprised of our environmental division, Clear, which was acquired on June 12, 2008.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
Segmented Information	**Drilling Fluids**	**Environmental Services (2)**	Drilling Fluids	Environmental Services (2)
($000's)				
Revenue	**$ 114,618**	**$ 10,451**	$ 60,420	$ -
Gross margin	**33,128**	**3,568**	19,075	-
Net earnings before taxes	**12,994**	**2,317**	9,302	-
EBITDAC (1)	**$ 18,269**	**$ 2,363**	$ 10,453	$ -

Notes:

[1] *Refer to the "Non-GAAP Measures" on page 3 for further detail.*

[2] *The Environmental Services segment is comprised of the Partnership's environmental division, Clear, which was acquired on June 12, 2008.*

Drilling Fluids Segment

Revenue from the Drilling Fluids segment was $114.6 million for the year ended December 31, 2008, compared to $60.4 million for the year ended December 31, 2007 an increase of 90%. CES's estimated market share (refer to "Operational Definitions" on page 4) in Western Canada increased to 21% for the year ended December 31, 2008 from 17% for the year ended the year ended December 31, 2007. CES operating days (refer to "Operational Definitions" on page 4) in Western Canada were estimated to be 30,660 for the year, an increase of 52% from last year. Overall industry activity in Western Canada increased 7% from an average rig count in 2007 of 339 to 364 in 2008 based on industry published data. Revenue generated in the US from drilling fluids related sales of products and services in 2008 was $4.7 million with 732 operating days (refer to "Operational Definitions" on page 4) for the year ended December 31, 2008. CES did not have any activity in the US in 2007. Revenue from trucking operations increased to $5.8 million from $1.0 million for the years ended December 31, 2008 and 2007 respectively.

Gross margin for the Drilling Fluids segment of $33.1 million or 29% of revenue was generated for the year which, as a percentage of revenue, was lower than the 32% gross margin generated in 2007. The decrease in margin was primarily due to increased sales of invert, which generates a lower product margin and lower margins received on revenue generated in the US in order to gain an entry into the marketplace.

Environmental Services Segment

The Environmental Services segment contributed $10.5 million of revenue from its acquisition date of June 12, 2008 to December 31, 2008. The work performed for shallow gas programs is currently on target, with increases in revenue and profit being recognized in Northern Alberta, B.C. and oil sands areas. During 2008, Clear was awarded oilsands project work from a number of key operators.

Gross margin for the Environmental segment was $3.6 million or 34% of revenue from its acquisition date of June 12, 2008 to December 31, 2008.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended Dec 31, 2008	Three Months Ended Sep 30, 2008	Three Months Ended Jun 30, 2008	Three Months Ended Mar 31, 2008
Financial Results				
($000's, except per unit amounts)				
Revenue	**41,385**	40,850	14,560	28,274
Gross margin[1]	**11,980**	12,188	3,559	8,969
Net earnings	**4,715**	6,244	(1,055)	5,282
per unit – basic and diluted[2]	**0.42**	0.56	(0.11)	0.56
EBITDAC[1]	**6,563**	7,651	566	5,852
Funds flow from operations[1]	**6,335**	7,539	469	5,703
per unit – basic and diluted[2]	**0.57**	0.67	0.05	0.61
Distributions declared	**2,653**	2,653	2,371	2,229
per Class A Unit	**0.2376**	0.2376	0.2376	0.2376
per Subordinated Class B Unit	**0.2376**	0.2376	0.2376	0.2376
Partnership Units Outstanding[2]				
End of period	**11,169,801**	11,166,870	11,166,370	9,380,946
Weighted average – basic	**11,167,794**	11,166,513	9,822,070	9,380,946
Weighted average – diluted	**11,167,794**	11,230,889	9,912,771	9,382,281

	Three Months Ended Dec 31, 2007	Three Months Ended Sep 30, 2007	Three Months Ended Jun 30, 2007	Three Months Ended Mar 31, 2007
Financial Results				
($000's, except per unit amounts)				
Revenue	18,600	16,104	6,198	19,518
Gross margin[1]	5,773	5,337	1,444	6,521
Net earnings (loss)	3,292	3,037	(2,955)	3,927
per unit – basic and diluted[2]	0.35	0.32	(0.32)	0.42
EBITDAC[1]	3,503	3,218	(396)	4,128
Funds flow from operations[1]	3,450	3,223	(400)	4,137
per unit – basic and diluted[2]	0.37	0.34	(0.04)	0.44
Distributions declared	2,229	2,229	2,229	2,229
per Class A Unit	0.2376	0.2376	0.2376	0.2376
per Subordinated Class B Unit	0.2376	0.2376	0.2376	0.2376
Partnership Units Outstanding[2]				
End of period	9,380,946	9,380,946	9,380,946	9,380,946
Weighted average – basic	9,380,946	9,380,946	9,380,946	9,380,946
Weighted average – diluted	9,380,946	9,390,442	9,380,946	9,380,946

Notes:
[1] *Refer to the "Non-GAAP Measures" on page 3 for further detail.*
[2] *Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 17). At the date of this MD&A there were 11,119,801 Partnership Units outstanding.*

Seasonality of Operations

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable. Government road bans severely restrict activity in the second quarter before equipment is moved for summer drilling programs in the third quarter. These seasonal trends typically lead to quarterly fluctuations in operating results and working capital requirements, which should be considered in any quarter over quarter analysis of performance.

LIQUIDITY AND CAPITAL RESOURCES

The Partnership's net working capital was positive at $15.8 million at December 31, 2008 as compared with $7.6 million at December 31, 2007. Bank indebtedness, including outstanding cheques was $12.7 million at December 31, 2008 in comparison to $4.5 million at December 31, 2007. On October 9, 2008 the Partnership secured an increase in the amount available under its facility to $20.0 million which will incur interest at the bank's prime rate plus 0.65%.

Long-term debt, including current portion, at December 31, 2008 was $4.8 million (December 31, 2007 - $2.2 million).

The Partnership's long-term debt was as follows:

	Dec 31, 2008	Dec 31, 2007
Vehicle financing loans	**$ 2,258**	$ 1,277
Other long-term debt	**2,516**	917
	4,774	2,194
Less current portion	**(1,300)**	(905)
	$ 3,474	$ 1,289

On February 26, 2008, the Partnership established a committed loan with a commercial bank for $1.8 million and on October 8, 2008, the Partnership amended the loan to $1.7 million. At December 31, 2008, there was $1.7 million outstanding on the committed loan. The loan is repayable in fixed monthly principal payments of $9,725 plus interest at the bank's prime rate plus 0.75%. This loan has an initial term of five years, with the bank reserving the right to extend the term by two further five year periods at its discretion.

Also on February 26, 2008, the Partnership established a second committed loan with the same commercial bank for $1.0 million. At December 31, 2008, there was $0.9 million outstanding on the committed loan. The loan is repayable over five years in fixed monthly principal payments of $16,667 plus interest at the bank's prime rate of interest plus 0.75%.

The debt facilities, including the operating line, are secured by a general security agreement creating a first priority security interest in all personal property of the General Partner, the Partnership and its subsidiaries, an unlimited corporate guarantee of the indebtedness of the Partnership given by the General Partner and the Partnership's subsidiaries, and a demand collateral mortgage on the Partnership's Edson, Alberta property. These facilities were used to repay and cancel the Partnership's bank debt that was in place at December 31, 2007.

These facilities also impose the following financial covenants on the Partnership: its ratio of debt to equity must not exceed 2.50 to 1.00 (tested quarterly); its ratio of current assets to current liabilities must not be less than 1.25 to 1.00 (tested quarterly); and its debt service coverage ratio must not be less than 1.25 to 1.00 (tested annually based on the audited consolidated financial statements). The ratio of debt to equity is calculated as total liabilities per the financial statements, less future income taxes and net of any cash credit balances, divided by total unitholders' equity per the financial statements, less any intangible assets including goodwill. The ratio of current assets to liabilities is calculated as total current assets per the financial statements divided by current liabilities per the financial statements less current portion of long-term debt. The debt service coverage ratio is calculated as net earnings for the period, before interest expense, future income tax expense, unit-based compensation and amortization divided by the sum of all interest and principal payments for the period. If the Partnership does not meet any one of these requirements, it is considered to be in default of the agreement and is restricted from making any distributions to unitholders without prior written consent of the commercial bank. Through 2008 and as of the date of release of this MD&A, the Partnership has met all of the requirements under the loan agreement.

Under the current market conditions the Partnership has an exposure to its lender with respect to the lender's potential inability to fund. Should the Partnership's lender be unable or choose not to fund, it would impair the Partnership's ability to operate, as access to operating line funds is critical to the effective execution of the Partnership's business plan. The Partnership has not experienced any funding issues under its debt facility to date.

Vehicle financing loans are secured by each related vehicle, and incur interest at rates ranging from 0% to 17.1% and are repayable in monthly payments ranging from $800 - $2,100. Vehicle financing loans mature from January 2009 to December 2012.

At the time of the release of this MD&A, management is satisfied that the Partnership has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. However, the Partnership continues to assess its requirements for capital on an on-going basis and there can be no guarantee that the Partnership will not have to obtain additional capital to finance the expansion plans of the business or to finance any future working capital needs. The recent turmoil in the financial markets has impacted the availability of both credit and equity in the marketplace. The current market conditions indicate that in the event that it is required, it may be difficult to issue additional equity or increase credit capacity and the cost of any new capital will likely exceed historical norms. In addition, there has been a dramatic reduction in crude oil and natural gas prices since the summer of 2008 and in turn a significant reduction in industry forecasted levels of drilling activity in the WCSB and the United States. As a result there has been a greater emphasis on evaluating credit capacity, credit counterparties and liquidity by the Partnership.

Funds Flow from Operations and Distributions

CES calculated distributable funds based on funds flow from operations[1] and the payout ratio[1] based on the level of distributions declared as follows:

	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007
($000's)		
Cash flow from operating activities	**2,522**	4,386
Adjust for:		
Change in non-cash operating working capital	**17,524**	6,024
Funds flow from operations[1]	**20,046**	10,410
Less: Maintenance capital[2]	**961**	456
Distributable funds[1]	**19,085**	9,954
Distributions declared	**9,906**	8,916
Payout ratio[1]	**52%**	90%

Notes:
[1] Refer to the "Non-GAAP Measures" on page 3 for further detail.
[2] Refer to the "Operational Definitions" on page 4 for further detail.

Components of change in non-cash operating working capital balances – increase (decrease) in cashflow:	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007
($000's)		
Accounts receivable	(23,812)	1,824
Inventory	(4,717)	(3,573)
Prepaid expenses	(207)	(10)
Accounts payable and accrued liabilities	11,212	(3,838)
Deferred revenue	-	(427)
	(17,524)	(6,024)

Distributable funds were $19.1 million for the year ended December 31, 2008, in comparison to $10.0 million for the year ended December 31, 2007. The Partnership declared monthly distributions of $0.0792 per Class A Common limited partnership unit ("Class A Unit") during the period and quarterly distributions of $0.2376 per Class B subordinated limited partnership unit ("Subordinated Class B Unit") to Subordinated Class B unitholders.

The payout ratio for 2008 was 52% and 90% for the year ended December 31, 2007. Throughout the year, the payout ratio varies with the seasonality of the Partnership's funds flow from operations. Periods of higher activity will cause the payout ratio to decrease, and likewise, lower activity periods will cause the payout ratio to increase. Distributions are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either the seasonality of the business or changes in the level of working capital, distributions may be funded through drawing down on the operating credit facility.

Management and the Board of Directors review the appropriateness of distributions on a monthly and quarterly basis taking into account industry conditions and, particularly, growth opportunities requiring expansion capital and management's forecast of distributable funds.

The following chart summarizes the Partnership's distributions in relation to GAAP performance measures:

($000's)	**Year Ended Dec 31, 2008**	Year Ended Dec 31, 2007
Cash flow from operating activities	**2,522**	4,386
Net earnings	**15,186**	7,301
Distributions declared	**9,906**	8,916
Shortfall of cash flows from operating activities over distributions declared	**7,384**	4,530
Shortfall (excess) of net earnings over distributions declared	**(5,280)**	1,615

The shortfall of cash flows from operating activities over distributions declared in 2008 and 2007 resulted from the timing of the changes in certain non-cash working capital balances, namely accounts receivable, inventory and accounts payable and accrued liabilities.

The excess of net earnings over distributions declared in 2008 has been retained inside the Partnership. The shortfall of net earnings over distributions declared in 2007 was primarily due to the non-cash charge to earnings of $2.0 million for future income tax expense.

The sharp decrease in crude oil and natural gas prices since the summer of 2008, and the resulting decrease in industry forecasted drilling activity, will likely result in a decrease in the Partnership's overall activity levels in the near-term and the resulting cash flows over that term. The commodity price down-turn, combined with the on-going uncertainty and reduced access to the debt and equity markets, increases the importance of maintaining strong financial flexibility. The Partnership intends to closely manage its distribution levels and spending in order to minimize increases to debt levels and preserve its balance sheet strength.

Although at this time the Partnership intends to continue to make cash distributions to unitholders, these distributions are not guaranteed.

In addition, future expansion investments and acquisitions may be funded internally by withholding a portion of cash flow in conjunction with or in replacement of external sources of capital such as debt or the issuance of equity. To the extent that CES withholds cash flow to finance these activities, the amount of cash distributions to unitholders may be reduced.

Subsequent to December 31, 2008, CES declared monthly distributions of $0.0792 per Class A Unit to unitholders of record on January 31, 2009 for the month ended January 31, 2009 and also declared monthly distributions of $0.0792 per Class A Unit to unitholders of record on February 27, 2009 for the month ended February 28, 2009.

Investing Activities

The Partnership incurred $7.7 million in capital expenditures during the year ended December 31, 2008 of which $6.8 million was for expansion capital and $0.9 million was for maintenance capital. The Partnership incurred $5.6 million in capital expenditures during the year ended December 31, 2007 of which $5.1 million was for expansion capital and $0.5 million was for maintenance capital. See "Operational Definitions" on page 4 for an explanation of expansion versus maintenance capital.

($000's)	**Year Ended Dec 31, 2008**	Year Ended Dec 31, 2007
Expansion capital	**6,787**	5,095
Maintenance capital	**961**	456
Total investment in property and equipment	**7,748**	5,551
Less:		
Accrued liabilities related to expenditures	**(191)**	202
Vehicle financing	**1,791**	810
Cash used for investment in property and equipment	**6,148**	4,539

The Partnership incurred $6.8 million in expansion capital expenditures during the year ended December 31, 2008, which included $1.9 million for vehicles which are largely financed, $1.6 million in additional trucks and trailers, $1.4 million in field equipment, $0.9 million in warehouse construction costs and $1.0 million in other capital assets. During the second quarter of 2008, CES raised $11.9 million through a bought deal financing (see "Liquidity and Capital Resources – Financing Activities on page 17) and $3.3 million of these funds were used to expand the trucking and warehousing operations which largely included the above noted expenditures.

In addition, on June 26, 2008, the Partnership acquired technology used in designing certain drilling fluid systems for $0.6 million (see "Liquidity and Capital Resources – Unitholders' Equity" on page 17). On December 31, 2008, the Partnership determined that the carrying amount of the purchased technology exceeded its fair value and recorded an impairment charge of $0.2 million.

The expansion capital expenditures in 2007 were primarily related to the construction of the trucking, warehousing and tank farm facility in Edson, Alberta for $2.6 million and the purchase of trucks and related equipment for the Edson, Alberta operations for $1.5 million. This facility and trucking operations are being operated under the Partnership's EQUAL Transport division which was established in the second quarter of 2007. In addition, expansion capital included vehicles and equipment purchased to service the growth in activity. Maintenance capital expenditures in 2007 primarily related to replacement vehicles for field technicians.

In general, the long-term capital investments required for the Partnership to execute its business plan are not significant. The majority of capital expenditures are made at the discretion of the Partnership based on the timing and expected overall return on the investment. At the time of the release of this MD&A, the total budgeted long-term capital expenditures planned for calendar 2009 are less than $1.5 million.

Business Acquisitions

On June 12, 2008, the Partnership completed the acquisition of the business and assets of Clear Environmental Solutions Inc. for an aggregate purchase price of $11.5 million, of which $7.6 million was paid in cash (which includes costs relating to the purchase of $0.2 million) and $3.9 million was paid through the issuance of 380,488 Class A Units at a deemed price of $10.25 per unit. Contingent consideration exists which consists of a potential single earn-out payment of up to a maximum of $2.0 million, determined by subtracting $2.4 million from the net income from operations before management bonuses and investment income of the Partnership attributable to the business and assets acquired in connection with the acquisition for the 12 month period beginning July 1, 2008 and multiplying the positive result, if any, by a four times multiple. The payment, if any, will be satisfied by the issuance of Class A Units to the vendor no later than the 60th day following the end of such 12 month period. The Class A Units will be issued at a price equal to the weighted average trading price of the Class A Units for the ten trading days preceding the earn-out payment date. At December 31, 2008, the Partnership recorded a liability of $2.0 million for the potential earn-out payment, based upon Management's estimate of net income from operations from Clear before management bonuses and investment income for the 12 month period beginning July 1, 2008.

The acquisition has been accounted for using the purchase method, with the Partnership identified as the acquirer. The purchase price allocation was as follows:

Net assets acquired		Total
Current assets	$	1,610
Property and equipment		133
Customer relationships		4,100
Goodwill		7,947
Current liabilities		(318)
	$	13,472

Consideration		Total
Cash	$	7,400
Contingent payable		2,000
Class A Units		3,900
Closing costs		129
Working capital adjustment		43
	$	13,472

Financing Activities

On February 26, 2008, the Partnership secured new debt financing with a commercial bank to borrow up to $12.0 million on a demand revolving loan facility based on the value of certain accounts receivable and inventory. Any amounts drawn on this facility incur interest at the bank's prime rate plus 0.50%. On October 9, 2008 the Partnership secured an increase in the amount available under its facility to $20.0 million which will incur interest at the bank's prime rate plus 0.65%. At December 31, 2008, there was $12.0 million drawn on this operating facility and there were outstanding cheques payable of $0.7 million.

On February 26, 2008, the Partnership established a committed loan with a commercial bank for $1.8 million and on October 8, 2008, the Partnership amended the loan to $1.7 million. Also on February 26, 2008, the Partnership established an additional committed loan with the same commercial bank for $1.0 million. At December 31, 2008, there was a total of $2.5 million outstanding on the committed loans. The loans are repayable in fixed monthly principal payments totalling $26,392 plus interest at the bank's prime rate plus 0.75%. The loans have an initial term of five years, with the bank reserving the right to extend the term by two further five year periods at its discretion. These facilities were used to repay and cancel the Partnership's bank debt that was in place at December 31, 2007.

On June 5, 2008 the Partnership concluded a bought deal financing with a syndicate of underwriters for 1,234,200 Class A Units at $10.25 per unit for net proceeds of $11.9 million (gross proceeds of $12.7 million less costs of $782,000). The proceeds were used to: (i) pay the cash portion of the Clear acquisition and related costs of $7.6 million (see "Liquidity and Capital Resources – Business Acquisition" on page 16); (ii) fund $3.3 million of a capital expansion program; and (iii) for the remainder for general working capital requirements due to the growth of the business.

Unitholders' Equity

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units. There were 9,018,315 Class A Units and 2,151,486 Class B Units outstanding at December 31, 2008. A table summarizing the Units issued in 2008 is included in Note 12 to the audited Consolidated Financial Statements.

On June 5, 2008, the Partnership and a syndicate of underwriters closed a bought deal equity financing pursuant to which the syndicate sold 1,234,200 Class A Units for gross proceeds of $12.7 million ($10.25 per Class A Unit). Net proceeds after offering expenses and underwriters' commissions of $0.9 million net of tax of $0.1 million, were $11.9 million.

In connection with the acquisition of Clear on June 12, 2008 (see "Liquidity and Capital Resources – Business Acquisition" on page 16), the Partnership issued 380,488 Class A Units to the vendors. The Class A Units are held in escrow with one half of the units to be released from escrow on the first anniversary of the date of the acquisition, and the remaining units to be released on the second anniversary of the date of the acquisition.

On June 26, 2008, the Partnership issued 75,000 Class A Units in connection with the acquisition of technology used in designing certain drilling fluid systems ("Drilling Fluid Technology") from a private company owned by a former employee of a subsidiary of the Partnership. The Class A Units were valued at $8.00 per unit based on the fair value of the units when the transaction was approved by the Board of Directors of Canadian Energy Services Inc., the general partner of the Partnership. Of the Class A Units issued, 50,000 were held in escrow with one half of the units to be released on January 16, 2009 and the remaining units to be released on January 16, 2010 (see "Liquidity and Capital Resources – Investing Activities" on page 15). On January 9th, 2009, the Partnership repurchased for cancellation at $1 the 50,000 Class A Units held in escrow and transferred the Drilling Fluid Technology back to the same private company.

Unitholders' Equity – Related Parties

On March 2, 2006, the Partnership completed the acquisition of the drilling fluid businesses from Impact Fluid Systems Inc. ("Impact") and Canadian Fluid Systems Ltd. ("CFS" and collectively with Impact, the "Vendors"). In connection with the acquisition of the drilling fluid businesses, the Partnership issued an aggregate of 860,594 Class A Units and 2,151,486 Subordinated Class B Units to the Vendors as partial consideration for the acquired businesses. Of the Class A Units issued to the Vendors, 706,890 Class A Units were held in escrow with one-half of the units being released from escrow on March 2, 2007, and the remaining units released on March 2, 2008. The Subordinated Class B Units issued to the Vendors in connection with the acquisition are non-transferable (except to certain shareholders, associates or affiliates of the respective Vendors) and are only exchangeable into Class A Units on or after March 2, 2009, unless a take-over bid is made for the Class A Units and certain other limited circumstances.

Distributions on the Subordinated Class B Units are paid quarterly subject to achieving certain distribution targets on the Class A Units. The above business acquisitions were transacted with certain individuals, or entities controlled by them, who as a result of the acquisitions are significant unitholders of the Partnership. Certain of these individuals or persons related to them have continued in key management or director roles with the General Partner.

Unit-based Compensation

(a) Partnership Unit Option Plan

The Partnership may provide additional compensation to employees, officers and directors of the General Partner and certain service providers by issuing options to acquire Class A Units under the Partnership's unit option plan (the "Unit Option Plan"). As at December 31, 2008, 725,500 (December 31, 2007 – 695,000) Unit Options were outstanding. At the date of this MD&A, there were 740,500 Unit Options outstanding. The fair value of the Unit Options granted during the year ended December 31, 2008 was $0.8 million (December 31, 2007 - $0.1 million). Unit Options granted vest as to one-third on each of the first, second and third anniversary dates of the grant and expire no later than five years after the grant.

(b) Partnership Distribution Rights Plan

On May 12, 2008, the unitholders of the Partnership approved a Distribution Rights Plan, which provides long-term incentive to directors, officers, employees and service providers of the Partnership or the General Partner who are providing services to the Partnership, the General Partner or their affiliates through the issuance of Distribution Rights which are redeemable for Class A Units on the basis of distributions paid by the Partnership, thereby reflecting the total returns to holders of Class A Units. As at December 31, 2008, 46,812 (December 31, 2007 – Nil) notional distribution rights were outstanding. At the date of this MD&A, there were 53,240 notional distribution rights outstanding. Distribution Rights vest with the Unit Options to which the Distribution Rights relate.

(c) Partnership Unit Bonus Plan

On May 12, 2008 the unitholders of the Partnership approved a Unit Bonus Plan to provide additional compensation to the employees, officers and certain service providers of the Partnership or the General Partner by issuing up to 125,000 Class A Units. During the second quarter of 2008, the Partnership issued 75,500 Class A Units under the Unit Bonus Plan to certain officers and key employees of the General Partner and recognized an expense relating to this issue of $0.8 million. Additionally, the Partnership approved the grant of 20,500 Class A Units to be issued on April 1, 2009 upon satisfaction of certain conditions. The Partnership recognized expense of $0.2 million in compensation expense relating to the conditional issuance of these units for the year ended December 31, 2008.

Commitments / Contractual Obligations

At December 31, 2008, the Partnership had the following financial commitments with payments due for the years ending December 31 as follows:

($000's)	2009	2010	2011	2012	2013	Total
Long-term debt, including current portion	1,300	1,135	738	353	1,248	4,774
Office rent	923	329	329	116	30	1,727
Vehicle leases	24	5	-	-	-	29
Total	2,247	1,469	1,067	469	1,278	6,530

Given its current financial condition, the Partnership anticipates it will be able to meet these commitments as necessary.

FOURTH QUARTER RESULTS AND DISCUSSION

	Three Months Ended Dec 31, 2008	Three Months Ended Dec 31, 2007	$ Change	% Change
($000's, except per unit amounts)				
Revenue	**41,385**	18,600	22,785	123
Cost of sales	**29,405**	12,827	16,578	129
Gross margin[1]	**11,980**	5,773	6,207	108
% of revenue	**29%**	31%		
Selling, general and administrative expenses	**5,417**	2,270	3,147	139
Amortization	**1,086**	335	751	n/m
Unit-based compensation	**492**	53	439	n/m
Interest expense	**228**	53	175	n/m
Loss on disposal of assets	**12**	-	12	n/m
Net earnings before taxes	**4,745**	3,062	1,683	55
Future income tax expense (recovery)	**30**	(230)	260	n/m
Net earnings	**4,715**	3,292	1,423	43
per unit – basic and diluted	**0.42**	0.35	0.07	20

Notes:
[1] *Refer to the "Non-GAAP Measures" on page 3 for further detail.*
n/m – Calculation is not meaningful.

Revenue and Operating Activities

The Partnership generated revenue of $41.4 million for three month period ended December 31, 2008, an increase of $22.8 million or 123% over the same quarter last year. On a per unit basis, gross revenue was $3.71 per unit for the three month period ended December 31, 2008 compared to $1.98 per unit for the three month period ended December 31, 2007. Of the $22.8 million increase in revenue, $14.3 million was generated in the Western Canada drilling fluids business, $1.2 million was generated in the US, $5.7 million was contributed by the new division, Clear and $1.6 million was generated by incremental trucking operations. The active rig count in Western Canada averaged 385 for the fourth quarter in 2008 based on CAODC published monthly data for Western Canada. This was a 13% increase from the average rig count of 342 in the fourth quarter in 2007. CES estimated its market share (refer to "Operational Definitions" on page 4) in the fourth quarter of 2008 at 21%, up from 17% estimated for the fourth quarter last year. As of February 10, 2009, there were 381 active rigs reported by CAODC, which compares to 571 a year earlier.

The top five customers of the Partnership accounted for approximately 34% of revenue in the fourth quarter of 2008, with the largest customer, a major exploration and production company, at 11.3%. The top five customers of the Partnership accounted for approximately 33% of revenue in the fourth quarter of 2007, with the largest customer, a major exploration and production company, at 8.5%.

The Partnership estimated operating days (refer to "Operational Definitions" on page 4) from its drilling fluids services as follows:

	Three Months Ended Dec 31		
	2008	2007	% Change
Canada	**8,188**	5,520	48
United States	**184**	-	n/m
Total Operating Days	**8,372**	5,520	52

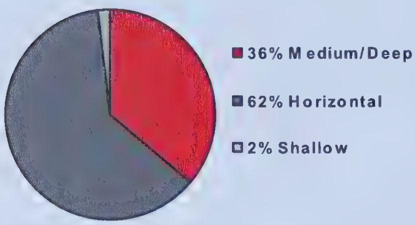
Note:
n/m – Calculation is not meaningful

CES generated incremental revenue in the three months ended December 31, 2008 with an estimated 184 operating days from operations in the US. In addition, the EQUAL Transport trucking operations based in Edson, Alberta, the growth in trucking for the Moose Mountain Mud division and the additional EQUAL Transport location based in Carlyle, Saskatchewan, contributed $2.3 million of revenue for the three months ended December 31, 2008, up from the $0.7 million generated for the same period in 2007. Our environmental division, Clear, was acquired on June 12, 2008 and contributed $5.7 million of revenue for the three months ended December 31, 2008.

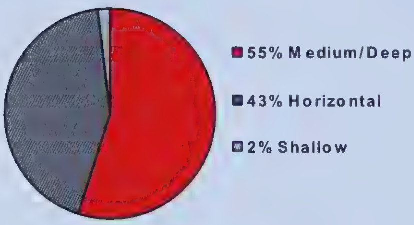
Overall, CES's drilling fluid business continued to focus on resource plays and in particular the medium to deep drilling and horizontal drilling in those plays, which collectively represented approximately 98% of revenue for the three month periods ended December 31, 2008 and 2007. CES' experience has been that the importance to the operator of efficient drilling fluid systems' increases significantly with the depth and complexity of the well drilled.

The following charts illustrate the Partnership's estimated revenue from its drilling fluids business by well type in its targeted areas:

Three Months Ended December 31, 2008



Three Months Ended December 31, 2007



Cost of Sales and Gross Margin

Gross margin represents the profit earned on revenue after deducting the cost of products, field labour and all related field costs. Margins vary due to a change in product mix, well type, geographic area and nature of activity (i.e. drilling fluids, trucking, environmental, etc.).

Gross margin of $12.0 million, or 29% of revenue, was generated for the fourth quarter in 2008. Gross margin of $5.8 million, or 31% of revenue, was generated for the fourth quarter in 2007. Margins have decreased from 2007 primarily due to increased sales of invert, which generates a lower product margin and lower margins received on revenue generated in the US in order to gain an entry into the marketplace.

Cost of labour has less of an impact on margins as activity increases. Use of consultants and the variable component of compensation for employees provides a means to manage seasonal activity swings. CES field staff increased from an average headcount of 44 in the fourth quarter of 2007 to 105 in the fourth quarter of 2008, a 139 % increase. The increased field staff was required to accommodate the growth in activity from 2007 to 2008. At December 31, 2008 and 2007, the head count of field staff was 101 and 46, respectively.

SG&A

SG&A for the fourth quarter in 2008 was $5.4 million, an increase of $3.1 million (139%) from the fourth quarter in 2007. This increase is in line with the overall growth in operating revenue and reflective of the diversification into complementary business lines and the new geographic expansion into the United States. In 2008, three new offices were added including two in the United States (Denver and Oklahoma City) and one in Calgary (Clear), resulting in an increase to average office headcount from 32 in the fourth quarter of 2007 to 70 in the same period of 2008. Office headcount at December 31, 2008 and 2007 was 70 and 32, respectively. The Partnership continues to be focused on overall cost control for SG&A especially in light of the current downturn in drilling activity.

Other Expense Items

Amortization was $1.1 million for the fourth quarter in 2008 and $0.3 million for the same period in 2007. The increase largely related to the investment in trucks and trailers for the trucking division and light duty trucks for the drilling fluids division and the increase in amortization of intangible assets.

Unit-based compensation was $0.5 million for the fourth quarter of 2008, an increase of $0.4 million over the $0.1 million for the same period last year. The increase is due to the impact of the Distribution Rights Plan which was implemented in May 2008 and is amortized over the remaining vesting periods of the related options.

Interest expense increased to $0.2 million for the fourth quarter ended December 31, 2008 from $0.1 million for the same period in 2007. The increase was due to the higher average debt outstanding for fourth quarter of 2008 as compared with the same period in 2007. Interest expense consists of interest expense on vehicle financing loans, the committed facilities and the operating loan less interest earned on short-term investments.

Future Income Taxes

A future income tax expense of $30,000 was recognized in the fourth quarter of 2008. The Partnership recorded a net future tax asset of $0.8 million in the fourth quarter of 2008 relating to the estimated non-capital loss balance of its US subsidiary, for which a valuation allowance of $0.8 million has been applied due to the uncertainty of realization.

A future income tax recovery of $0.2 million was recognized in the fourth quarter of 2007 primarily due to the December 14, 2007 enactment of legislation reducing tax rates in 2011 and beyond. The tax rate expected to be in effect when the net taxable timing differences will reverse was reduced from 31.5% to 28.0%.

Funds Flow from Operations and Distributions

CES calculated distributable funds based on funds flow from operations[1] and the payout ratio[1] based on the level of distributions declared as follows:

	Three Months Ended Dec 31, 2008	Three Months Ended Dec 31, 2007
($000's)		
Cash flow from operating activities	**3,930**	(384)
Adjust for:		
Change in non-cash operating working capital	**2,405**	3,834
Funds flow from operations[1]	**6,335**	3,450
Less: Maintenance capital[2]	**489**	90
Distributable funds[1]	**5,846**	3,360
Distributions declared	**2,653**	2,229
Payout ratio[1]	**45%**	66%

Notes:
[1] Refer to the "Non-GAAP Measures" on page 3 for further detail.
[2] Refer to the "Operational Definitions" on page 4 for further detail.

The payout ratio for the three months ended December 31, 2008 was 45% and was 66% for the three months ended December 31, 2007. Throughout the period, the payout ratio varies with the seasonality of the Partnership's funds flow from operations. Periods of higher activity will cause the payout ratio to decrease, and likewise, lower activity periods will cause the payout ratio to increase. Distributions are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either of the seasonality of the business or changes in the level of working capital, distributions could be funded through the credit facility.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CES prepares its consolidated financial statements in accordance with Canadian GAAP. There were no new accounting policies announced during the period presented which would be expected to materially impact the Partnership's consolidated financial statements.

As a routine element of the financial statement preparation process, management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the possible disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense for the period.

Although estimates and assumptions must be made during the financial statement preparation process, it was management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in CES' consolidated financial statements were the impairment of goodwill, the amortization of property, equipment and intangible assets, future income taxes and unit-based compensation.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Accounting Changes

On January 1, 2008, the Partnership adopted CICA Handbook Section 1535 – Capital Disclosures, Section 3031 – Inventories, Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. Section 1535 requires the entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Section 3031 replaces Section 3030 – Inventories, and requires enhanced disclosure and measurement of inventories at the lower of cost and net realizable value. Section 3862 requires the entity to disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks and Section 3863 provides guidance on the presentation of financial instruments.

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. These new sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Partnership will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The impact of the initial application of these standards is not expected to be significant.

Management of the Partnership is not aware of any recent accounting pronouncements or developments, other than as noted above, that will affect the Partnership's consolidated financial statements. Management will continue to monitor and assess the impact of accounting pronouncements on the Partnership's consolidated financial statements as they become available.

During 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011.

The Partnership will commence the process to transition from current Canadian GAAP to IFRS in 2009 by establishing a project plan and a project team to be led by finance management. The project will include representatives from various areas of the organization as necessary and consist of three phases: initiation, detailed assessment and design and implementation. The first phase will involve the completion of a high level review of the major differences between current Canadian GAAP and IFRS. The detailed assessment and design phase will involve completing a comprehensive analysis of the impact of the IFRS differences identified in the initial scoping assessment. The implementation phase will involve executing the required changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. Regular reporting is provided to the Partnership's senior executive management and to the Audit Committee of the Board of Directors.

At this time, the impact on financial statements is not reasonably determinable.

RISKS AND UNCERTAINITIES AND NEW DEVELOPMENTS

The drilling industry is cyclical and the business of CES is directly affected by fluctuations in the level of oil and natural gas exploration and development activity carried on by its clients. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors including: weather; oil, natural gas and natural gas liquids prices; access to capital markets; and government policies including environmental regulations. Any prolonged or significant decrease in energy prices, economic activity or adverse change in government regulations could have a significant negative impact on exploration and development drilling activity in North America. There has been a dramatic reduction in crude oil and natural gas prices since the summer of 2008 and, in turn, a significant reduction in industry forecasted levels of drilling activity in the WCSB and the United States which may severely reduce activity levels for the Partnership and the resulting cash flows achieved over any term of reduced activity.

The oil and natural gas drilling season is affected by weather. The industry is generally more active in the WCSB during the winter months of November through March, as the movement of heavy equipment is easier over the frozen ground. Wet weather, traditionally in the spring and summer, can hamper the movement of drilling rigs which has a direct impact upon generating revenue. Conversely, a longer colder winter as well as a dry spring and summer strengthen drilling operations and therefore serve to enhance CES' revenue generation. Mitigation of weather risk is difficult and costly as effective derivative products do not yet exist to successfully manage this risk.

The ability of the Partnership to expand its services will also depend upon the ability to attract qualified personnel as needed. The demand for skilled oilfield employees and drilling fluid technicians has in recent history been high and the supply has been limited. The unexpected loss of the Partnership's key personnel or the inability to retain or recruit skilled personnel could have an adverse effect on the Partnership's results. CES addresses this risk by:

- attracting well trained and experienced professionals;
- offering competitive compensation at all levels;
- ensuring a safe working environment with clearly defined standards and procedures; and
- offering its employees both internal and external training programs.

CES takes its environmental responsibilities seriously and has instituted standards, policies and procedures to address this risk area. In addition, the Partnership maintains insurance policies with respect to its operations providing coverage of all material insurable risks.

Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy and other geopolitical factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in CES' trade accounts receivable since they are predominantly with companies operating in the WCSB, as the growth in the United States market has been limited to date. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers, reviewing its credit procedures on a regular basis, and reviewing and actively following up on older accounts. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those for which have already been provided. However, if the current low commodity prices and tight capital markets prevail, there is a risk of increased bad debts. It is not possible at this time to predict the likelihood or magnitude of this risk.

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007, the Government of Alberta announced a new royalty regime that will introduce new royalties for conventional oil, natural gas and oilsands that are linked to price and production levels. The new royalty regime is effective January 1, 2009. The changes to the royalty regime may adversely affect the exploration for, and the development of, oil and natural gas by entities operating in the Province of Alberta, particularly medium/deep natural gas and high productivity conventional oil, which could negatively impact the business, operations, cash flow and distributions of CES.

The recent turmoil in the financial markets has impacted the availability of both credit and equity in the marketplace. The current market conditions indicate that, in the event that it is required, it may be difficult to issue additional equity or increase credit capacity without significant costs at this time. In addition, under the current market conditions the Partnership has an exposure to its lender with respect to the lender's potential inability to fund. Should the Partnership's lender be unable or choose not to fund it would impair the Partnership's ability to operate, as access to operating line funds is critical to the effective execution of the business. The Partnership has not experienced any funding issues under its debt facility to date.

Reference should be made to the Partnership's Annual Information Form for the period ended December 31, 2008, and in particular to the heading "Risk Factors" for further risks associated with the business, operations and structure of the Partnership.

CORPORATE GOVERNANCE

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be reported by the Partnership is gathered, recorded, processed, summarized and reported to senior management, including the President and Chief Executive Officer and Chief Financial Officer of the General Partner, to allow timely decisions regarding required public disclosure by CES in its annual filings, interim filings or other reports filed or submitted in accordance with Canadian securities legislation.

At the end of the period covered by this MD&A, management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Partnership's disclosure controls and procedures, as detailed by National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Partnership's annual filings and interim filings and other reports filed or submitted in accordance with Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the General Partner, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow decisions regarding required disclosure.

Internal Controls over Financial Reporting

Management of the General Partner is responsible for establishing and maintaining internal controls over financial reporting for the Partnership to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the design and effectiveness of the Partnership's internal control controls over financial reporting as at December 31, 2008. Based on their assessment Management determined that the internal controls over financial reporting were effective as at December 31, 2008. On June 12, 2008 the Partnership acquired the business and assets of Clear and began consolidating the operations of Clear into the Partnership. Management excluded this business from its evaluation of the effectiveness of the Partnership's internal control over financial reporting as at December 31, 2008. The net income attributable to this business represented approximately 15 per cent of the Partnership's consolidated net income in 2008, and its aggregate total assets represented approximately 14 per cent of the Partnership's consolidated total assets as at December 31, 2008.

There have been no changes to the Partnership's internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

It should be noted that while the General Partner's President and Chief Executive Officer and Chief Financial Officer believe that the Partnership's disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

OUTLOOK

The sharp decrease in crude oil and natural gas prices since the summer of 2008, and the resulting decrease in forecasted industry drilling activity throughout North America, will likely result in a decrease in the Partnership's overall activity levels through 2009 and the resulting cash flows over that term. The commodity price down-turn, combined with the on-going uncertainty and reduced access to the debt and equity markets, increases the importance of maintaining strong financial flexibility. As a result, the Partnership intends to closely manage its distribution levels and spending in order to minimize increases to debt levels and preserve its balance sheet strength and liquidity position.

Despite the uncertain times facing the North American drilling market, CES' exposure to the growth in the number of horizontal wells being drilled bodes well for the Partnership. These wells require complex drilling fluids to best manage drilling times and costs and our unique products like Seal-AX™ and Liquidrill™ combined with our concerted focus on providing superior service positions CES well in this current environment.

Drilling in the tarsands and heavy oil, which will continue to benefit CES from our Liquidrill™/Tarbreak products, is forecast to continue, albeit at lower levels in the current commodity price environment.

Our recent expansion into the Oklahoma market complements our US Rockies group based in Denver. These markets present us with potential incremental growth. Our strategy remains to utilize our patented and proprietary technologies and local personnel to create market share in the US market.

The Clear and EQUAL Transport divisions are making substantial contributions to our business. They continue to complement our core drilling fluids business and we expect both to perform well but based on current industry activity forecasts at reduced levels from 2008.

CES will continue to invest in technology and integrated business solutions to drive margins and remain competitive for our customers. Our credit line expansion from $12.0 million to $20.0 million allows us to make appropriate working capital investments.

CES believes that its value proposition in horizontal, oilsands and deeper natural gas drilling, will position it as the premium drilling fluids provider in the market. CES' technologies have global application and the Partnership will continue to pursue opportunities that align our service offerings with the needs of our customers. We are confident that our technologies will be embraced as we build out our operations. We believe the US operations offer significant growth opportunities. Procuring materials and providing engineering support for these new activities can be achieved without adversely affecting our traditional markets.

Additional information related to the Partnership can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. Information is also accessible on the Partnership's web site at www.CanadianEnergyServices.com.

Canadian Energy
SERVICES L.P.

Annual Audited Consolidated Financial Statements

For the Year Ended December 31, 2008

MANAGEMENT'S REPORT

Management is responsible for the preparation of the consolidated financial statements in accordance with generally accepted accounting principles and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial and management information.

External auditors appointed by the unitholders have examined the consolidated financial statements. The Audit Committee, consisting of three non-management directors, is responsible to review these statements with management and the auditors and to report to the Board of Directors. The Board is responsible to review and approve the consolidated financial statements.

"*Thomas J. Simons*"
Thomas J. Simons
President & Chief Executive Officer
February 26, 2009

"*Craig F. Nieboer*"
Craig F. Nieboer
Chief Financial Officer
February 26, 2009

AUDITORS' REPORT

To the Unitholders of Canadian Energy Services L.P.:

We have audited the consolidated balance sheets of Canadian Energy Services L.P. (the "Partnership") as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive earnings and deficit and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2008 and 2007 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

"Deloitte & Touche LLP"
Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
February 20, 2009

Consolidated Balance Sheets
(stated in thousands of dollars)

		Dec 31, 2008		Dec 31, 2007
ASSETS				
Current assets				
Accounts receivable	$	**47,286**	$	21,909
Inventory		**10,903**		6,186
Prepaid expenses		**441**		190
		58,630		28,285
Property and equipment (note 6)		**12,519**		6,724
Intangible assets (note 7)		**4,199**		95
Goodwill (note 8)		**49,913**		41,966
	$	**125,261**	$	77,070
LIABILITIES AND UNITHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness (note 9)	$	**12,702**	$	4,548
Accounts payable and accrued liabilities		**25,578**		14,196
Contingent payable (note 4)		**2,000**		-
Distributions payable		**1,225**		1,084
Current portion of long-term debt (note 10)		**1,300**		905
		42,805		20,733
Long-term debt (note 10)		**3,474**		1,289
Future income tax liability (note 11)		**2,004**		2,001
		5,478		3,290
Unitholders' equity				
Class A Units (note 12)		**84,352**		66,959
Subordinated Class B Units (note 12)		**21,514**		21,514
Contributed surplus (note 12)		**1,531**		273
Deficit		**(30,419)**		(35,699)
		76,978		53,047
	$	**125,261**	$	77,070

Commitments (note 16)

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer and Director

"D. Michael Stewart"
D. Michael Stewart
Director & Chairman, Audit Committee

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations, Comprehensive Earnings and Deficit
(stated in thousands of dollars except unit amounts)

		Year Ended Dec 31, 2008		Year Ended Dec 31, 2007
Revenue	$	**125,069**	$	60,420
Cost of sales		**88,373**		41,345
Gross margin		**36,696**		19,075
Expenses				
Selling, general and administrative expenses		**16,064**		8,622
Amortization (note 7)		**2,601**		913
Unit-based compensation (note 13)		**2,097**		168
Interest expense		**586**		43
Loss on disposal of assets		**37**		27
		21,385		9,773
Net earnings for the year before taxes		**15,311**		9,302
Future income tax expense (note 11)		**125**		2,001
Net earnings for the year		**15,186**		7,301
Other comprehensive income		**-**		-
Comprehensive earnings for the year		**15,186**		7,301
Deficit, beginning of year		**(35,699)**		(34,084)
Unitholders' distributions declared (note 15)		**(9,906)**		(8,916)
Deficit, end of year	$	**(30,419)**	$	(35,699)
Net earnings per unit (note 14)				
Basic and diluted	$	**1.46**	$	0.78

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flow
(stated in thousands of dollars)

	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net earnings for the year	$ 15,186	$ 7,301
Items not involving cash:		
Amortization	2,601	913
Unit-based compensation	2,097	168
Future income tax expense	125	2,001
Loss on disposal of assets	37	27
Change in non-cash operating working capital (note 20)	(17,524)	(6,024)
	2,522	4,386
FINANCING ACTIVITIES:		
Repayment of long-term debt	(1,962)	(689)
Increase in long-term debt	2,750	1,000
Increase in bank indebtedness	8,154	4,548
Issue of class A units, net of share issue costs	11,932	-
Distributions to unitholders	(9,765)	(8,916)
	11,109	(4,057)
INVESTING ACTIVITIES:		
Investment in property and equipment (note 6)	(6,148)	(4,539)
Investment in intangible assets	(77)	(97)
Acquisition of Clear Environmental Solutions (note 4)	(7,529)	-
Proceeds on disposal of fixed assets	123	113
	(13,631)	(4,523)
DECREASE IN CASH AND CASH EQUIVALENTS	-	(4,194)
Cash and cash equivalents, beginning of year	-	4,194
Cash and cash equivalents, end of year	$ -	$ -

SUPPLEMENTARY CASH FLOW DISCLOSURE

	2008	2007
Interest paid	$ 535	$ 43
Taxes paid	$ -	$ -

The accompanying notes are an integral part of these consolidated financial statements.

1. The Partnership

Canadian Energy Services L.P. (the "Partnership") is a limited partnership formed on January 13, 2006, pursuant to the *Limited Partnerships Act* (Ontario). The Partnership designs and implements drilling fluid systems for the oil and natural gas industry, in particular relating to drilling medium to deep vertical and directional wells and horizontal wells in the Western Canadian Sedimentary Basin and the United States through its subsidiary AES Drilling Fluids, LLC. The Western Canadian oil and natural gas drilling season is affected by weather. The industry is generally more active during the winter months of November through March, as the movement of heavy equipment is easier over the frozen ground. Wet weather in the spring and summer can hamper the movement of drilling rigs which has a direct impact upon generating revenue. Conversely, a longer colder winter as well as a dry spring and summer strengthen drilling operations.

2. Basis of Presentation

The consolidated financial statements have been prepared by management of the Partnership in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property and equipment and intangible assets, impairment of goodwill and intangibles, future income taxes and unit-based compensation. The impairment calculations for goodwill and intangibles are based upon estimated future cash flows and as such are dependent upon drilling activity within the oil and gas industry. Actual drilling activity cannot be predicted with certainty and as such actual results could differ from these estimates.

3. Significant Accounting Policies

(a) Consolidation

These consolidated financial statements include the accounts of the Partnership and its wholly-owned subsidiaries. All inter-company balances and transactions are eliminated on consolidation.

(b) Inventory

Inventory is stated at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Property and equipment are amortized using the straight-line method over their estimated useful lives at the following rates:

Computer equipment and software	3 years
Vehicles	3 years
Trucks	3-5 years
Field equipment	5 years
Leasehold improvements	4 years
Furniture and fixtures	5 years
Buildings	10-20 years
Tanks	15 years

The Partnership regularly reviews its property and equipment to account for impairment.

(d) Intangible assets

Costs attributable to intangible assets are capitalized if future economic benefits are reasonably assured. Intangible assets are initially recorded at cost and are amortized over their estimated useful lives when the realization of economic benefits begin. Intangible assets are tested for recoverability whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. The impairment test is based on estimated future cash flows associated with the intangible asset.

(e) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is necessary when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it were the purchase price. When the carrying amount of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

(f) Revenue recognition

The Partnership's revenue is primarily comprised of the sale of products and the provision of services. Revenue on sales of product is recognized based on fixed or determinable prices when the product has been delivered to the well site and the product has been mixed. For sales that are invoiced upon shipment of the product, deferred revenue is recorded for the portion of the product that has not been mixed. Revenue from field service and trucking charges is recognized based upon agreed daily, hourly or job rates, when the service is performed. Revenue will only be recognized when collection is reasonably assured.

(g) Unit-based compensation

The Partnership uses the fair value method to account for unit options granted to employees, officers and directors of the General Partner and certain service providers. Under the fair value method, the fair value of the unit options is estimated at the grant date using the Black-Scholes option pricing method, and such fair value is expensed over the vesting period, with a corresponding increase in contributed surplus. Any consideration received upon the exercise of the unit-based compensation together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as an increase in unitholders' capital. The Partnership has not incorporated an estimated forfeiture rate for unit options that will not vest and accounts for forfeitures as they occur.

(h) Income taxes

The income earned directly by the Partnership is currently taxed at the partner level. As a result, provisions for income and capital taxes are not made by the Partnership except as noted below.

Effective January 1, 2011 the income of the Partnership will be subject to tax and accordingly future income taxes have been recorded relating to temporary differences expected to reverse after this date. The Partnership and its subsidiaries follow the liability method of recording future income taxes. Under this method, future tax assets and liabilities are recognized for the future taxes attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective tax carrying values. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the period in which those temporary differences

reverse. Future income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change, the carrying value of income tax assets or liability may change. The effect of a change in tax rates on future tax assets and liabilities is recognized in income in the period that the legislation is enacted or substantively enacted.

These consolidated financial statements include the assets, liabilities, and operations of the Partnership and its subsidiaries and do not include the assets and liabilities, including income tax, of the partners.

(i) Foreign currency translation

Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Gains and losses are included in net earnings.

The accounts of the Partnership's integrated foreign subsidiary are translated into Canadian dollars using average exchange rates for the month of the respective transaction for revenue and expense. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated using historical exchange rates. Gains or losses resulting from these translation adjustments are included in net earnings.

(j) Financial instruments

The Partnership has classified all financial instruments into one of the following five categories: 1) loans and receivables; 2) assets held to maturity; 3) assets available for sale; 4) other financial liabilities; and 5) held for trading. Financial instruments classified as held for trading are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in net income. Financial instruments classified as available for sale are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in other comprehensive income, until realized through disposal or impairment. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income.

The Partnership has classified its financial instruments as follows: cash – held for trading; accounts receivable – loans and receivables; and bank indebtedness, accounts payable and accrued liabilities, contingent payable, distributions payable and long-term debt – other financial liabilities.

Transaction costs relating to financial instruments are expensed as incurred and included in net earnings.

(k) Earnings per unit

Basic earnings per unit are computed by dividing net earnings by the weighted average number of units outstanding during the period. The Partnership uses the treasury stock method for calculating diluted earnings per unit. Diluted earnings per unit are computed similar to basic earnings per unit except that the weighted average units outstanding are increased to include additional units from the assumed exercise of unit options, if dilutive. The number of additional units is calculated by assuming that outstanding unit options were exercised and that the proceeds from such exercises and any unrecognized unit-based compensation in aggregate are used to acquire Class A Units at the average market price during the period.

(l) Accounting changes

On January 1, 2008, the Partnership adopted CICA Handbook Section 1535 – Capital Disclosures, Section 3031 – Inventories, Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. Section 1535 requires the entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Section 3031 replaces Section 3030 – Inventories, and requires enhanced disclosure and measurement of inventories at the lower of cost and net realizable value. Section 3862 requires the entity to disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks and Section 3863 provides guidance on the presentation of financial instruments. The above statements were adopted prospectively and included as additional note disclosure in these financial statements.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. These new Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Partnership will adopt the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The impact of the initial application of these standards is not expected to be significant.

During 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011. At this time, the impact on the Partnership's consolidated financial statements is not reasonably determinable.

4. Business Acquisitions

On June 12, 2008, the Partnership completed the acquisition of the business and assets of Clear Environmental Solutions Inc. ("Clear") for an aggregate purchase price of $11.5 million, of which $7.6 million was paid in cash (which includes costs relating to the purchase of $0.2 million) and $3.9 million was paid through the issuance of 380,488 Class A Units at a deemed price of $10.25 per unit. Contingent consideration exists which consists of a potential single earn-out payment of up to a maximum of $2.0 million, determined by subtracting $2.4 million from the net income from operations before management bonuses and investment income of the Partnership attributable to the business and assets acquired in connection with the acquisition for the 12 month period beginning July 1, 2008 and multiplying the positive result, if any, by a four times multiple. The payment, if any, will be satisfied by the issuance of Class A Units to the vendor no later than the 60th day following the end of such 12 month period. The Class A Units will be issued at a price equal to the weighted average trading price of the Class A Units for the ten trading days preceding the earn-out payment date. At December 31, 2008, the Partnership amended the purchase price and recorded a contingent liability of $2.0 million for the potential earn-out payment based upon Management's estimate of net income from operations from Clear before management bonuses and investment income for the 12 month period beginning July 1, 2008.

The acquisition has been accounted for using the purchase method, with the Partnership identified as the acquirer. The purchase price allocation was as follows:

Net assets acquired		
Current assets	$	1,610
Property and equipment		133
Customer relationships (note 7)		4,100
Goodwill (note 8)		7,947
Current liabilities		(318)
	$	13,472

Consideration		
Cash	$	7,400
Class A Units		3,900
Contingent payable		2,000
Closing costs		129
Working capital adjustment		43
	$	13,472

5. Inventory

The cost of inventory expensed in cost of sales for the years ended December 31, 2008 and December 31, 2007 was $61.7 million and $32.2 million, respectively.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

6. Property and Equipment

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
Trucks	$ 3,842	$ 511	$ 3,331
Vehicles	4,052	1,166	2,886
Buildings	2,650	186	2,464
Field equipment	1,983	456	1,527
Land	981	-	981
Computer equipment and software	898	350	548
Tanks	505	44	461
Furniture and fixtures	364	89	275
Leasehold improvements	54	8	46
	$ 15,329	$ 2,810	$ 12,519

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
Buildings	$ 1,678	$ 78	$ 1,600
Vehicles	1,898	555	1,343
Trucks	1,288	96	1,192
Field equipment	1,172	160	1,012
Land	842	-	842
Tanks	456	12	444
Computer equipment and software	376	163	213
Furniture and fixtures	115	37	78
	$ 7,825	$ 1,101	$ 6,724

Details of investments in property and equipment are as follows:

	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007
Total investment in property and equipment	$ 7,748	$ 5,551
Less:		
Vehicle financing	(1,791)	(810)
Plus:		
Decrease (increase) in non-cash investing working capital	191	(202)
Cash used for investment in property and equipment	$ 6,148	$ 4,539

7. Intangible Assets

	Cost	Accumulated Amortization	Dec 31, 2008 Net Book Value	Dec 31, 2007 Net Book Value
Customer relationships (note 4)	$ 4,100	$ 408	$ 3,692	$ -
Technology	600	250	350	-
Patents	172	15	157	95
	$ 4,872	$ 673	$ 4,199	$ 95

On June 26, 2008, the Partnership purchased technology used in designing certain drilling fluids systems (see note 12). On December 31, 2008, the Partnership determined that the carrying amount of the purchased technology exceeded its fair value and recorded an impairment charge of $0.2 million.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

8. Goodwill

Balance, December 31, 2007 and 2006	$	41,966
Clear acquisition (note 4)		7,947
Balance, December 31, 2008	$	49,913

At December 31, 2008, the Partnership completed its annual goodwill impairment test. Management estimated the fair value of the Partnership's drilling fluids and environmental businesses using a number of industry accepted valuation methodologies including discounted future cash flows, comparable industry valuation multiples, recent trading activity and capital market pricing of the Partnership's units. Management concluded that the carrying value of goodwill was less than the estimated fair value and therefore no reduction in the carrying value was necessary.

9. Bank Indebtedness

At December 31, 2008, the Partnership had a revolving demand loan with a commercial bank permitting it to borrow up to $20.0 million, subject to the value of certain accounts receivable and inventory, with amounts drawn on the facility incurring interest at the bank's prime rate plus 0.65%. The facility is secured by a general security agreement creating a first priority security interest in all personal property of the General Partner, the Partnership and its subsidiaries, an unlimited corporate guarantee of the indebtedness of the Partnership given by the General Partner and the Partnership's subsidiaries, and a demand collateral mortgage on the Partnership's Edson, Alberta property.

At December 31, 2008, the Partnership had drawn $12.0 million on the facility and had outstanding cheques payable of $0.7 million. At December 31, 2007, the Partnership had drawn $3.3 million on its debt facility and had outstanding cheques payable of $1.2 million.

The effective rate of interest paid on bank indebtedness was 4.91% and 5.18% for the years ended December 31, 2008 and 2007 respectively.

10. Long-Term Debt

The Partnership has long-term debt as follows:

	Dec 31, 2008	Dec 31, 2007
Vehicle financing loans	**$ 2,258**	$ 1,277
Other long-term debt	**2,516**	917
	4,774	2,194
Less current portion	**(1,300)**	(905)
	$ 3,474	$ 1,289

On February 26, 2008, the Partnership established a committed loan with a commercial bank for $1.75 million. On October 8, 2008, the Partnership amended the loan to $1.68 million. At December 31, 2008, there was $1.65 million outstanding on the committed loan. The loan is repayable in fixed monthly principal payments of $9,725 plus interest at the bank's prime rate plus 0.75%. This loan has an initial term of five years, with the bank reserving the right to extend the term by two further five year periods at its discretion.

Also on February 26, 2008, the Partnership established a second committed loan with the same commercial bank for $1.0 million. At December 31, 2008, there was $0.86 million outstanding on the committed loan. The loan is repayable over five years in fixed monthly principal payments of $16,667 plus interest at the bank's prime rate of interest plus 0.75%.

The long-term debt facilities are secured by the same general security agreement as the revolving demand loan creating a first priority security interest in all personal property of the General Partner, the Partnership and its subsidiaries, an unlimited corporate guarantee of the indebtedness of the Partnership given by the General Partner and the Partnership's subsidiaries, and a demand collateral mortgage on the Partnership's Edson, Alberta property. These facilities were used to repay and cancel the Partnership's bank debt that was in place at December 31, 2007.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

Vehicle financing loans are secured by each related vehicle, and incur interest at rates ranging from 0% to 17.1% and are repayable in monthly payments ranging from $800 - $2,100. Vehicle financing loans mature from January 2009 to December 2012.

Principal payments are as follows for the years ending December 31:

2009	$	1,300
2010		1,135
2011		738
2012		353
2013		1,248
Total	$	4,774

The effective rate of interest paid on long-term debt was 5.08% and 5.12% for the years ended December 31, 2008 and 2007 respectively.

11. Future Income Taxes

Based on its assets and liabilities as at December 31, 2008 and 2007, the Partnership estimated the amount of its temporary differences which were previously not subject to tax and the period in which these differences will reverse. Details of taxable (deductible) temporary differences are as follows:

	Dec 31, 2008	Dec 31, 2007
Property and equipment	**$ 637**	$ 13
Goodwill	**2,003**	1,648
Share issuance costs	**(2,922)**	(3,160)
Non-capital losses of US subsidiary	**(2,701)**	-
Net deductible temporary differences	**$ (2,983)**	$ (1,499)

The Partnership estimated that $7.3 million of net taxable temporary differences will reverse after January 1, 2011, resulting in a $2.0 million future income tax liability at December 31, 2008. The taxable temporary differences relate principally to the projected excess of net book value of goodwill over the projected remaining tax pools attributable thereto at January 1, 2011.

As at December 31, 2008, CES had unused US non-capital loss tax pools of $2.7 million (December 31, 2007 - $nil). The US non-capital losses available for carry forward expire in 2028. The Partnership has recorded a full valuation allowance of $0.8 million at the end of 2008.

On June 22, 2007 the Government of Canada enacted new legislation imposing additional income taxes upon specified investment flow-through ("SIFT") entities including public partnerships such as Canadian Energy Services L.P., effective January 1, 2011. While the Partnership believes it will be subject to tax under the new legislation, the tax rate on temporary difference reversals after 2010 may change in future periods. The amount and timing of reversals of temporary differences will also depend on the Partnership's future operating results, financings and asset acquisitions and dispositions.

SIFT tax does not apply to a SIFT that was publicly traded on October 31, 2006 until 2011 unless the SIFT exceeds "normal growth" in the interim period as determined by reference to guidelines released on December 15, 2006. Under those guidelines, normal growth is an increase of equity capital (including new securities convertible into equity, but excluding equity issued on the conversion of convertible securities existing on October 31, 2006) each year until 2011 of not more than an amount equal to the greater of $50 million and a cumulative safe harbour amount (a specified portion of its market capitalization as of the end of trading on October 31, 2006.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007
Net earnings for the year before taxes	**$ 15,311**	$ 9,302
Combined federal and provincial tax rate on SIFT entities	**0%**	0%
Income tax expense at statutory rates	**$ -**	$ -
Increase (decrease) resulting from:		
Effect of future tax rates on temporary differences	**125**	2,251
Effect of change in enacted future rates during the year	**-**	(250)
Future income tax expense for the year	**$ 125**	$ 2,001

12. Unitholders' Equity

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units.

On June 5, 2008, the Partnership and a syndicate of underwriters closed a bought deal equity financing pursuant to which the syndicate sold 1,234,200 Class A Units for gross proceeds of $12.7 million ($10.25 per Class A Unit). Net proceeds after offering expenses and underwriters' commissions of $0.9 million net of tax of $0.1 million, were $11.9 million.

In connection with the acquisition of Clear on June 12, 2008 (see note 4), the Partnership issued 380,488 Class A Units to the vendors. The Class A Units are held in escrow with one-half of the units to be released from escrow on the first anniversary of the date of the acquisition, and the remaining units to be released on the second anniversary of the date of the acquisition.

On June 26, 2008 the Partnership issued 75,000 Class A Units in connection with the acquisition of technology used in designing certain drilling fluids systems ("Drilling Fluid Technology") from a private company owned by a former employee of the Partnership. The Class A Units were valued at $8.00 per unit based on the fair value of the units when the transaction was approved by the Board of Directors of Canadian Energy Services Inc., the general partner of the Partnership. Of the Class A Units issued, 50,000 were held in escrow with one-half of the units to be released on January 16, 2009 and the remaining units to be released on January 16, 2010. On January 9, 2009, the Partnership repurchased for cancellation at $1 the 50,000 units held in escrow and transferred the Drilling Fluid Technology back to the same private company.

During the year ended December 31, 2008, the Partnership issued 75,500 Class A Units under the Unit Bonus Plan and recognized an expense relating to this issue of $810,030 (see note 13).

A summary of changes to the unitholders' equity for the years ended December 31, 2008 and 2007 is presented below:

	2008		2007	
Class A Units	**Number of Units**	**Amount**	Number of Units	Amount
Balance, beginning of year	**7,229,460**	**$ 66,959**	7,229,460	$ 66,959
Equity issue, net of share issue costs and tax	**1,234,200**	**11,868**	-	-
Consideration for acquired business (note 4)	**380,488**	**3,900**	-	-
Consideration for acquisition of intangible asset	**75,000**	**600**	-	-
Issued pursuant to Unit Bonus Plan (note 13c)	**75,500**	**810**	-	-
Issued pursuant to Unit Option Plan (note 13a)	**23,475**	**215**	-	-
Issued pursuant to Distribution Rights Plan (note 13b)	**192**	**-**	-	-
Balance, end of year	**9,018,315**	**$ 84,352**	7,229,460	$ 66,959

(tabular amounts in thousands of dollars, except unit and per unit amounts)

	2008			2007		
Class B Units	**Number of Units**		**Amount**	Number of Units		Amount
Balance, end of year	**2,151,486**	**$**	**21,514**	2,151,486	$	21,514

Contributed Surplus		**2008**		2007
Balance, beginning of year	**$**	**273**	$	105
Unit-based compensation		**1,287**		168
Exercise of unit options		**(29)**		-
Balance, end of year	**$**	**1,531**	$	273

On March 2, 2006, the Partnership completed the acquisition of the drilling fluid businesses from Impact Fluid Systems Inc. ("Impact") and Canadian Fluid Systems Ltd. ("CFS" and collectively with Impact, the "Vendors"). In connection with the acquisition of the drilling fluid businesses, the Partnership issued an aggregate of 860,594 Class A Units and 2,151,486 Subordinated Class B Units to the Vendors as partial consideration for the acquired businesses. Of the Class A Units issued to the Vendors 706,890 Class A Units were held in escrow with one-half of the units being released from escrow on March 2, 2007, and the remaining units released on March 2, 2008. The Subordinated Class B Units issued to the Vendors in connection with the acquisition are non-transferable (except to certain shareholders, associates or affiliates of the respective Vendors) and are only exchangeable into Class A Units on or after March 2, 2009, unless a take-over bid is made for the Class A Units and certain other limited circumstances. Distributions on the Subordinated Class B Units are paid quarterly subject to achieving certain distribution targets on the Class A Units. The above business acquisitions were transacted with certain individuals, or entities controlled by them, who as a result of the acquisitions are significant unitholders of the Partnership. Certain of these individuals or persons related to them have continued in key management or director roles with the General Partner.

13. Unit-Based Compensation

During the year ended December 31, 2008, $2.1 million of compensation costs were recorded in the statement of operations in respect of the Partnership's unit option, distribution rights and unit bonus plans. During the year ended December 31, 2007, $0.2 million of compensation costs were recorded in the statement of operations in respect of the Partnership's unit option, distribution rights and unit bonus plans.

a) Partnership Unit Option Plan

The Partnership may provide additional compensation to the employees, officers and directors of the General Partner and certain service providers by issuing options to acquire Class A Units under the Partnership's unit option plan (the "Unit Option Plan"). Unit options granted vest as to one-third on each of the first, second and third anniversary dates of the grant and expire no later than five years after grant.

A summary of changes to the Unit Option Plan for the years ended December 31 is presented below:

	2008			2007		
	Options		**Average Exercise Price**	Options		Average Exercise Price
Outstanding, beginning of year	**695,000**	**$**	**8.78**	669,500	$	9.16
Granted during year	**158,500**		**10.27**	75,000		6.07
Exercised during the year	**(23,475)**		**7.92**	-		-
Forfeited during year	**(104,525)**		**9.15**	(49,500)		9.80
Outstanding, end of year	**725,500**	**$**	**9.08**	695,000	$	8.78
Exercisable, end of year	**377,505**	**$**	**9.07**	206,667	$	9.10

(tabular amounts in thousands of dollars, except unit and per unit amounts)

The following table summarizes information about the Unit Options outstanding for the year ended December 31, 2008:

	Options outstanding			Options exercisable	
Range of exercise price	Options	Weighted average exercise price	Weighted average remaining term in years	Options	Weighted average exercise price
$6.07-$8.00	262,000	$ 7.29	2.5	149,670	$ 7.50
$8.01-$11.31	463,500	10.09	3.0	227,835	10.11
Total	725,500	$ 9.08	2.8	377,505	$ 9.07

The fair value of the unit options granted during the year ended December 31, 2008 was $772,186 (December 31, 2007 - $62,675). During the same year, compensation costs of $1,131,219 (December 31, 2007 - $168,152) were recorded in the statement of operations. The compensation costs for unit options granted during the year ended December 31, 2008 were calculated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.1%, a yield of 0%, an expected volatility of 51% and expected lives of unit options of five years. The compensation costs for unit options granted during the year ended December 31, 2007 were calculated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 4.5%, a yield of 11%, an expected volatility of 31% and expected lives of unit options of five years.

(b) Partnership Distribution Rights Plan

The Partnership's Distribution Rights Plan, which was approved by the unit holders on May 12, 2008, provides long-term incentive to directors, officers, employees and service providers of the Partnership who are providing services to the Partnership, the General Partner or their affiliates through the issuance of Distribution Rights which are redeemable for Class A Units on the basis of distributions paid by the Partnership, thereby reflecting the total returns to holders of Class A Units. In respect of the adoption of the Distribution Rights Plan, for unit options outstanding on the adoption date of May 12, 2008, $1,348,540 of incremental value will be recognized as unit-based compensation over the remaining vesting period of the unit options. The incremental value was calculated as the difference between the fair value of the existing unit options immediately before and after the adoption date using the same assumptions except the dividend yield, which was 9.09% and 0%, respectively. For unit options granted subsequent to May 12, 2008, a dividend yield of 0% was assumed. Distribution Rights vest with the Unit Options to which the Distribution Rights relate.

A summary of changes to the Distribution Rights Plan for the year ended December 31, 2008 is presented below.

	Number of Distribution Rights
Outstanding, beginning of year	**-**
Granted during year	**51,290**
Redeemed during the year	**(192)**
Forfeited during year	**(4,286)**
Outstanding, end of year	**46,812**

(c) Partnership Unit Bonus Plan

The Partnership's Unit Bonus Plan, which was approved by the unit holders on May 12, 2008, provides additional compensation to the employees, officers and certain service providers of the Partnership, subsidiaries of the Partnership or the General Partner by issuing up to 125,000 Class A Units under the Partnership's Unit Bonus Plan. During the year ended December 31, 2008, the Partnership issued 75,500 Class A Units under the Unit Bonus Plan and recognized an expense relating to this issue of $810,030. Additionally, the Partnership approved the grant of 20,500 Class A Units to be issued on April 1, 2009 upon satisfaction of certain conditions. For the conditional grant of Class A Units, the Partnership recognized compensation expense of $155,911 for the year ended December 31, 2008.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

14. Earnings Per Unit

The computations for basic and diluted earnings per unit are as follows:

	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007
Earnings	$ 15,186	$ 7,301
Weighted average number of units outstanding:		
Basic	10,391,369	9,380,946
Effect of unit-based compensation plans	-	2,269
Diluted	10,391,369	9,383,215
Earnings per unit:		
Basic and diluted	$ 1.46	$ 0.78

For the year ended December 31, 2008, there was no effect of dilutive securities with respect to unit-based compensation plans as they were all anti-dilutive. For the year ended December 31, 2007, 243,720 unit options were anti-dilutive.

15. Cash Distributions

The Partnership declares monthly distributions of cash to Class A unitholders of record as at the close of business on each monthly distribution record date. In addition, the Partnership declares quarterly distributions on the Subordinated Class B Units to unitholders of record at the close of business on each quarterly distribution record date, subject to achieving certain distribution targets on the Class A Units. The amounts of the distributions are determined by the General Partner in accordance with the Partnership Agreement on a discretionary basis. Such distributions are recorded as reductions of equity upon declaration of the distribution. The Partnership has declared distributions to holders of Class A Units and Subordinated Class B Units for the year ended December 31, 2008 as follows:

Distribution Period 2008	Distribution Record Date	Date of Distribution	Per Class A Unit	Per Subordinated Class B Unit	Total
Jan 1 – 31	Jan 31	Feb 15	$ 0.0792	$ -	$ 573
Feb 1 – 29	Feb 29	Mar 14	0.0792	-	573
Mar 1 – 31	Mar 31	Apr 14	0.0792	-	573
Jan 1 – Mar 31	Mar 31	Apr 14	-	0.2376	510
Apr 1 – 30	Apr 30	May 15	0.0792	-	573
May 1 – 31	May 31	Jun 13	0.0792	-	573
Jun 1 – 30	Jun 30	Jul 15	0.0792	-	714
Apr 1 – Jun 30	Jun 30	Jul 15	-	0.2376	511
Jul 1 – 31	Jul 31	Aug 15	0.0792	-	714
Aug 1 – 31	Aug 31	Sep 15	0.0792	-	714
Sep 1 – 30	Sep 30	Oct 15	0.0792	-	714
Jul 1 – Sep 30	Sep 30	Oct 15	-	0.2376	511
Oct 1 – 31	Oct 31	Nov 15	0.0792	-	714
Nov 1 – 30	Nov 30	Dec 14	0.0792	-	714
Dec 1 – 31	Dec 31	Jan 15	0.0792	-	714
Oct 1 – Dec 31	Dec 31	Jan 15	-	0.2376	511
Total distributions declared during the year			$ 0.9504	$ 0.9504	$ 9,906

(tabular amounts in thousands of dollars, except unit and per unit amounts)

The Partnership declared distributions to holders of Class A Units and Subordinated Class B Units for the year ended December 31, 2007 as follows:

Distribution Period 2007	Per Unit	Total
Class A Units	$ 0.9504	$ 6,876
Class B Units	$ 0.9504	2,040
Total distributions declared during the year		$ 8,916

16. Commitments

The Partnership has commitments with payments due for the years ending December 31 as follows:

	Office rent	Vehicle leases	Total
2009	**$ 923**	**$ 24**	**$ 947**
2010	**329**	**5**	**334**
2011	**329**	**-**	**329**
2012	**116**	**-**	**116**
2013	**30**	**-**	**30**
Total	**$ 1,727**	**$ 29**	**$ 1,756**

The Partnership is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material adverse impact on the Partnership's financial position or results of operations and therefore the commitment table does not include any commitments for outstanding litigation and claims.

17. Financial Instruments

(a) Fair value

The carrying values of financial liabilities where interest is charged based on a variable rate are equal to fair value. The carrying value of long-term debt where interest is charged at a fixed rate is not significantly different than fair value. The carrying values of all other financial instruments approximate their fair value due to the relatively short period to maturity of the instruments.

(b) Credit risk

The Partnership manages credit risk by assessing the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accounts receivable includes balances from a large number of customers operating primarily in the oil and gas industry. Accordingly, the Partnership views the credit risks on these amounts as normal for the industry.

An analysis of accounts receivable that are past due but not impaired is as follows:

	Dec 31, 2008	Dec 31, 2007
Past due 61-90 days	**$ 3,450**	$ 2,787
Past due 91-120 days	**1,491**	510
Past 120 days	**318**	127
	$ 5,259	$ 3,424

The Partnership reduces an accounts receivable to its estimated recoverable amount as soon as it is known to be not collectible in full. If it is expected that further losses will be incurred, an allowance for doubtful accounts is recorded. As at December 31, 2008 the Partnership had recorded an allowance of $427,228 (December 31, 2007 - $68,097) in accounts receivable as not collectible.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

(c) Interest rate risk

The Partnership is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Partnership manages this risk by continuously monitoring interest rate trends and forecasted economic conditions. The exposure to interest rate risk on financial liabilities is detailed in the liquidity risk section of this note.

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Partnership's net earnings and other comprehensive earnings would have decreased/increased by approximately $48,000.

(d) Foreign currency risk

The Partnership's foreign currency risk arises from portions of the Partnership's accounts receivable, accounts payable and long-term debt that are denominated in U.S. dollars. Gains or losses resulting from this risk are included in earnings. Based on these U.S. dollar financial instrument closing balances, 2008 net earnings and other comprehensive earnings would have increased/decreased by approximately $47,000 for every 1% decrease/increase in the value of the U.S./Canadian exchange rate.

(e) Liquidity risk

The following table details the remaining contractual maturities of the Partnership's financial liabilities at December 31, 2008 (includes interest and principal cash flows where applicable):

	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
Accounts payable, accrued liabilities and contingent payable	**$ 23,778**	**$ 3,800**	**$ -**	**$ -**	**$ 27,578**
Long-term debt at fixed interest rates	**295**	**821**	**1,323**	**-**	**2,439**
Long-term debt at variable interest rates	**107**	**317**	**2,459**	**-**	**2,883**
	$ 24,180	**$ 4,938**	**$ 3,782**	**$ -**	**$ 32,900**

The Partnership manages liquidity risk by maintaining banking facilities and continuously monitoring forecasted and actual cash flows.

18. Capital Management

The Partnership considers capital to include unitholders' equity, long-term debt (including current portion), cash and cash equivalents and bank indebtedness. The Partnership's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain and grow the business while incurring an acceptable level of risk and providing unitholders with targeted distributions.

Management of the Partnership sets the amount of capital in proportion to risk, and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Partnership may adjust the level of distributions paid to unitholders, return capital to unitholders, issue new units, sell assets to reduce debt or issue new debt.

In addition to monitoring the externally imposed capital requirements detailed below, the Partnership manages capital by analyzing working capital levels, payout ratio, forecasted cash flows and general economic conditions. Payout ratio is calculated as distributions declared as a percentage of cash flow from operations before changes in non-cash operating working capital.

The Partnership has the following externally imposed capital requirements pursuant to the revolving demand facility agreement: its ratio of debt to equity must not exceed 2.50 to 1.00 (tested quarterly); its ratio of current assets to current liabilities must not be less than 1.25 to 1.00 (tested quarterly); and its debt service coverage ratio must not be less than 1.25 to 1.00 (tested annually based on the audited consolidated financial statements). The ratio of debt to equity is calculated as total

(tabular amounts in thousands of dollars, except unit and per unit amounts)

liabilities per the consolidated financial statements, less future income taxes and net of any cash credit balances, divided by total unitholders' equity per the consolidated financial statements, less any intangible assets including goodwill. The ratio of current assets to liabilities is calculated as total current assets per the consolidated financial statements divided by current liabilities per the consolidated financial statements less current portion of long-term debt. The debt service coverage ratio is calculated as net earnings for the period, before interest expense, future income tax expense, unit-based compensation and amortization divided by the sum of all interest and principal payments for the period. If the Partnership does not meet any one of these requirements, it is considered to be in default of the agreement and is restricted from making any distributions to unitholders without prior written consent of the commercial bank. As at December 31, 2008, the Partnership has met all of the financial requirements under this agreement.

19. Payments to the General Partner

The General Partner will be allocated 0.01% of the income of the Partnership for each fiscal year and 99.99% of the income of the Partnership will be allocated to the holders of Class A Units and Subordinated Class B Units.

20. Supplemental Information

Components of change in non-cash working capital balances:	**Year Ended Dec 31, 2008**	Year Ended Dec 31, 2007
Operating:		
Accounts receivable	**$ (23,812)**	$ 1,824
Inventory	**(4,717)**	(3,573)
Prepaid expenses	**(207)**	(10)
Accounts payable and accrued liabilities	**11,212**	(3,838)
Deferred revenue	**-**	(427)
	(17,524)	(6,024)
Investing:		
Accounts payable and accrued liabilities	**(191)**	202
	$ (17,715)	$ (5,822)

21. Segmented Information

The Partnership has two reportable segments as determined by management, which are the Drilling Fluids segment and the Environmental Services segment. The Drilling Fluids segment designs and implements drilling fluid systems for the oil and natural gas industry in the Western Canadian Sedimentary Basin and in the United States through its subsidiary AES Drilling Fluids, LLC. The Environmental Services segment is comprised of the Partnership's environmental division, Clear. The Environmental Services segment provides environmental and drilling fluids waste disposal services mostly to oil and gas producers active in the shallow natural gas producing areas of Alberta as well as to Alberta's oil sands.

	Year Ended December 31, 2008		
	Drilling Fluids	**Environmental Services [(1)]**	**Total**
Revenue from external customers	**$ 114,618**	**$ 10,451**	**$ 125,069**
Gross margin	**33,128**	**3,568**	**36,696**
Amortization of capital assets	**2,556**	**45**	**2,601**
Interest Expense	**586**	**-**	**586**
Future income tax expense (recovery)	**153**	**(28)**	**125**
Net earnings before taxes	**12,994**	**2,317**	**15,311**
Total assets	**107,763**	**17,498**	**125,261**
Goodwill additions	**-**	**7,947**	**7,947**
Capital expenditures	**$ 7,714**	**$ 34**	**$ 7,748**

(tabular amounts in thousands of dollars, except unit and per unit amounts)

	Year Ended December 31, 2007		
	Drilling Fluids	Environmental Services	Total
Revenue from external customers	$ 60,420	$ -	$ 60,420
Gross margin	19,075	-	19,075
Amortization of capital assets	913	-	913
Interest Expense	43	-	43
Future income tax expense	2,001	-	2,001
Net earnings before taxes	9,302	-	9,302
Total assets	77,070	-	77,070
Capital expenditures	$ 5,551	$ -	$ 5,551

Notes:

[1] *The Environmental Services segment is comprised of the Partnership's environmental division, Clear, which was acquired on June 12, 2008.*

	Revenue for the years ended Dec 31,		**Capital Assets and Goodwill As at Dec 31,**	
	2008	2007	**2008**	2007
Canada	**$ 120,341**	$ 60,420	**$ 60,758**	$ 48,690
United States (1)	**4,728**	-	**1,674**	-
Total	**$ 125,069**	$ 60,420	**$ 62,432**	$ 48,690

Note
(1) AES began operations in the United States in Calendar 2008

22. Economic Dependence

For the year ended December 31, 2008, one customer accounted for 10.6% of revenue. For the year ended December 31, 2007, no customer represented greater than 10% of revenue.

Partnership Information

BOARD OF DIRECTORS

Kyle D. Kitagawa[1]
Chairman

Alan D. Archibald[2]

Colin D. Boyer[1,2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney L. Carpenter

[1] Member of the Audit Committee
[2] Member of the Governance and Compensation Committee

OFFICERS

Thomas J. Simons
President & Chief Executive Officer

Craig F. Nieboer
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS

Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS

HSBC Bank Canada, Calgary, AB

SOLICITORS

Blake, Cassels & Graydon LLP, Calgary, AB

REGISTRAR & TRANSFER AGENT

Computershare Investor Services Inc.
Calgary, AB and Toronto, ON

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: CEU.UN

CORPORATE OFFICE

Suite 300 Energy Plaza, East Tower
311 – 6th Avenue SW
Calgary, AB T2P 3H2
Phone: 403-269-2800
Toll Free: 1-888-785-6695
Fax: 403-266-5708

DIVISIONS

Clear Environmental Solutions Inc.
440, 840 - 6th Avenue SW
Calgary, AB T2P 3E5
Phone: 403-263-5953
Fax: 403-229-1306

EQUAL Transport
18029 - Highway 10 East
Edson, AB T7E 1V6
Phone: 780-728-0067
Fax: 780-728-0068

Moose Mountain Mud
Box 32, Highway 9 South
Carlyle, SK S0C 0R0
Phone: 306-453-4411
Fax: 306-453-4401

US OPERATIONS

AES Drilling Fluids, LLC

1625 Broadway, Suite 1480
Denver, CO 80202
Phone: 303-820-2800
Fax: 303-820-2801

1000 W Wilshire Boulevard, Suite 361
Oklahoma City, OK 73116
Phone: 405-418-2972

www.CanadianEnergyServices.com